

# **FEE AND PROFIT: WHAT IS THE REAL MEANING? BUSINESS UNDERSTANDING CAN LEAD TO BETTER CONTRACT NEGOTIATIONS**

**RESEARCH REPORT**



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### **DISCLAIMER**

The contents of this paper are the sole result of the research performed by the author. The results are the opinions solely of the author and do not reflect the opinions of the TACOM Life Cycle Management Command, the Defense Acquisition University, or the U.S. Army.

## TABLE OF CONTENTS

Abstract .....	vii
CHAPTER 1—INTRODUCTION .....	1
Purpose .....	1
Research Question .....	1
Strategic Research Paper Research Hypothesis .....	1
CHAPTER 2—LITERATURE REVIEW .....	3
DoD Research .....	3
Top Ten Defense Contractors .....	3
Financial Analysis .....	3
Existing Profit Approach .....	3
CHAPTER 3—RESEARCH METHODOLOGY .....	5
Financial Statement Assessment .....	5
Financial Ratios and Growth Rates .....	5
Liquidity Ratios .....	6
Asset management Ratios .....	6
Debt management Ratios .....	6
Profitability Ratios .....	7
Market Value Ratios .....	7
Growth Rates .....	8
Discussion of Financial Analysis .....	8
CHAPTER 4—DATA ANALYSIS AND RESULTS .....	9
Financial Analysis .....	9
Lockheed Martin Corp. ....	9
Northrop Grumman Corp. ....	13
The Boeing Co. ....	18
Raytheon Co. ....	23
General Dynamics Corp. ....	28
KBR Inc. ....	32
Science Applications International Corp. (SAIC) .....	36
L-3 Communications Corp. ....	40
Computer Sciences Corp. ....	44
ITT Corp. ....	48

Growth Rates .....	52
Discussion of Financial Analysis.....	53
CHAPTER 5—CONCLUSIONS AND RECOMMENDATIONS .....	57
REFERENCES .....	59
GLOSSARY OF ACRONYMS AND TERMS.....	61
APPENDICES	
APPENDIX A—Financial Statements .....	62

## **ABSTRACT**

During Department of Defense (DoD) contract negotiations, fee becomes the primary metric for determining contractor profits. But does fee necessarily equate to “profit” where profit is defined in commercial terms as the net income for the company ? This paper addresses the following question: Is the fee in a contract the primary metric for determining contractor profits? A specific goal of this paper is to reduce the knowledge gap between the contractor and the government with respect to profit – in order to have better collaborative relationships with respect to the contracts.

The research uses financial management techniques and valuations to better understand the top-10 defense contractors. The analysis identifies metrics that provide meaningful data to the government and how the government can interpret that data. Of the various metrics calculated in the financial analysis, the growth rates and profitability may provide the most relevant information to the government. These show interrelated factors relative to the health of the company.

Information is available for the government to gain a better understanding of the financial aspects of defense contracting. This information can aid the government in developing different strategies for each acquisition. The government and contractors can use this information to generate better dialogue between the parties. The research also identifies trends that may cause concern for the DoD over the long-term. Based on the research, additional questions have become apparent and recommendations are made for further study.



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# **CHAPTER 1**

## **INTRODUCTION**

In a consummate game of cat and mouse, the government and defense contractors negotiate fee on contracts. The government wants to keep “profit” to a minimum and contractors want to maximize it. During contract negotiations, fee becomes the primary metric for determining contractor profits. But, does fee necessarily equate to “profit?” Is this truly the extent of their profit or are there other business metrics that will give the Department of Defense (DoD) a better understanding of their financial performance?

First, it is critical to define the terms profit and fee as they will be used in this paper. Fee is used to describe government defined fee/profit per FAR 15.404-4. The government defines fee/profit as “the dollar amount over and above allowable costs that is paid to the firm for contract performance (Federal Acquisition Institute & Air Force Institute of Technology, 2011).” For the purpose of this paper, profit represents the contractor net income as reported to the Securities and Exchange Commission (SEC).

The goal of this paper is to reduce the knowledge gap between the contractor and the government concerning the area of profit in order to have better collaborative relationships with respect to the contracts. An additional benefit may be in the form of better solicitations in order to understand contractor’s cash-flow objectives. The paper is not an analysis of the DoD profit policy or contractor’s profit policy and objectives. The paper will focus on financial management approaches used by business to increase shareholder worth.

Research Question:

- Is the fee in a contract the primary metric for determining contractor profits?

Strategic Research Paper Research Hypothesis:

- Successful Defense Contractors are able to increase profit potential beyond the fee collected on government contracts.
- Increasing business financial knowledge will aid government employees in understanding potential profit on contracts, allowing them to perform better in negotiations.

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## **CHAPTER 2**

### **LITERATURE REVIEW**

The literature review is bimodal, consisting of DoD research and business-financial management research. The DoD research mainly focuses on how to use fee and incentives to get the best performance from the contractor. That research has clear value where the concentration is on how to have successful contracts and deliver the capability or support needed to the warfighter. Additional research identifies effectiveness and limitations of DoD profit policy and cost analysis techniques. The DoD research has limited applicability for this paper since it focuses more on business related aspects of defense contracting. The business management financial research provides more relevance to the paper's topic. Defense contractors are no different than any other corporations when it comes to financially analyzing them.

There is abundant research and methods of analysis for business. The main reason for this research is to support major investment activities. For investors, the key to success is knowing as much as possible about a company. Historical information is used to project trends into the future. Business finance researchers have developed many numerical approaches to address key questions regarding a company's health. Corporate financial managers commonly use these factors to develop strategies for business growth. This paper will use these financial tools to analyze and look at the health of the top 10 defense contractors.

Defense Systems (2010) identifies the top 10 defense contractors for 2010 based on 2009 contract revenue, listed below in descending order of revenue.

- Lockheed Martin Corp.
- Northrop Grumman Corp.
- The Boeing Co.
- Raytheon Co.
- General Dynamics Corp.
- KBR Inc.
- Science Applications International Corp. (SAIC)
- L-3 Communications Corp.
- Computer Sciences Corp. (CSC)
- ITT Corp.

Bernstein, L. A. & Wild, J. J. (2000) discuss methods for reviewing and analyzing financial statements. The information utilized in this paper will come from the financial statements of the top 10 defense contractors. This information is obtained from the SEC Edgar database in the form of 10k reports (annual reports) and financial statements. The two primary financial statements utilized in the analysis of the top 10 defense contractors are the income statement and the balance sheet. The income statement provides a measure of a firm's financial performance over a period of time, normally an accounting period. The balance sheet provides a snapshot of a firm's financial position at a single point in time. Reorganizing the information can better illustrate major factors

driving defense contractor decisions. Bragg (2007) compiles an extensive library of business ratios and formulas that are crucial for financial managers to assess business health and growth opportunities. It provides a source for the ratios used to further analyze the information contained in the financial statements.

In the negotiation of defense contracts, the government relies primarily on the weighted guideline method for determining fee. This is a DoD policy and is defined in the Defense Federal Acquisition Regulation (DFAR) 215.404-4. The weighted guidelines (DD form 1547) (DFARS 215.404-71-1) is used for fixed-price, cost reimbursement, Indefinite Delivery Indefinite Quantity (IDIQ), and Time and Material (T&M) contracts. It is important to note that Research and Development (R&D) vice procurement of defense systems require different analysis and foster different motivations for both the contractor and the government. Procurement contracts provide more flexibility and opportunity for contractors to gain more profit, though the typicality fixed-price nature of these contracts generates risk in execution.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

The financial data from the top 10 defense contractors are analyzed and compared to their industry average. The annual reports filed by the contractors contain all the data needed to perform many analytical techniques. The reports were obtained from the SEC Edgar database. Data from these reports are reorganized in an effort to make them easier to understand and interpret. The analysis follows a staged process for each defense contractor. The first stage is based on the income statement and balance sheet. The second stage is financial ratios and growth rates for the contractors. The third and final stage provides a discussion of observations and projections from the financial analysis.

#### **Financial Statement Assessment**

The first stage in the analysis process extracts critical information from the company's financial statements. This provides a picture of company finances, major cost drivers and the use of investment capital. This section includes graphs and tables for sales and net income, expense distribution, asset distribution and capital structure.

The income statement contains the sales and net income over a six-year period. These values can be shown graphically to illustrate trending regarding these parameters. Also provided is the percentage increase or decrease from the previous year. In addition, the income statement contains the consolidated expenses for the company in any given year. This information provides an understanding of costs associated with maintaining the business and generating revenue.

The balance sheet contains details regarding assets, liabilities and equity. A distribution of assets shows potential sources of future revenue for the company (Bernstein & Wild, 2000). Based on the contract payment methods used by the government, the asset analysis provides a different indicator regarding contractor health rather than rely only on yearly profit margins. For example, during long build projects that company may not receive the bulk of the payment until it delivers the system. The value of these efforts shows on the asset distribution. Capital structure consists of the current liabilities, noncurrent liabilities and shareholder's equity of the organization. This shows the company's use of debt and shareholder equity to finance operations (Bernstein & Wild, 2000).

#### **Financial Ratios and Growth Rates**

The second stage in the analysis is calculations of key financial ratios and growth rates for the top 10 defense contractors (Bragg, 2007). The ratios supplement the basic data in the financial statements. Bragg (2007) and Harvard Business Essentials (2002) provide details regarding the ratios and growth rates. Below are some of the key financial ratios that financial managers use to assess their business opportunities. Included are the definition and a discussion on the basic use. The paper will focus on the metrics that related mainly with profit and growth. The selected ratios can be calculated with data in the corporate annual reports and are commonly used by financial analysts in performing corporate assessments.

### Liquidity Ratios

Lenders use liquidity ratios to determine whether the company has enough liquidity to cover liabilities. Liquidity “refers to the extent to which a company’s assets can readily be turned into cash for meeting current obligations.” (Harvard Business Review, 2002). With a ratio of less than 1, the company may not be able to meet its obligations as they become due. A high ratio will make it easier for the company to raise cash.

Ratio	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$

**Table 1. Liquidity Ratio**

### Asset Management Ratios

The asset management ratios indicate firm’s asset productivity. It is closely tied to liquidity. Effectively the ratios measures how the company is meeting the customer demand and is gaining revenue from sales. A ratio below the value of 1 is considered unacceptable financially (Bragg, 2007). Consequently, larger ratio values are preferable. These ratios become complicated with the various payment methods that the government uses for cost-plus and fixed-price contracts. For this analysis, total asset turnover is the only asset ratio calculated.

Ratio	Formula
Inventory Turnover	$\frac{\text{COGS}}{\text{Inventory}}$
Average Collection Period	$\frac{\text{Accounts Receivable}}{\text{Average Credit Sales per day}}$
Total Asset Turnover	$\frac{\text{Sales}}{\text{Total Assets}}$

**Table 2. Asset Management Ratios**

### Debt Management Ratios

Debt management ratios measure the degree of risk companies take regarding their income. The two ratios below provide indicators as to how well the company can cover its liabilities.

Ratio	Formula
Debt Ratio	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$
Times Interest Earned	$\frac{\text{Earnings Before Interest and Taxes (EBIT)}}{\text{Interest Expense}}$

**Table 3. Debt Management Ratios**

### Profitability Ratios

The profitability ratios indicate the company's income, how much it gets to retain and its relation to investors. They indicate how the company controls its costs. For this analysis, the company's profitability is determined using the following ratios.

Ratio	Formula
Gross Profit Margin	$\frac{\text{Gross Profits}}{\text{Sales}}$
Operating Profit Margin	$\frac{\text{Operating Profit}}{\text{Sales}}$
Net Profit Margin	$\frac{\text{Net Income}}{\text{Sales}}$
Earnings Per Share (EPS)	$\frac{\text{Net Income}}{\text{Number of Shares of Common Stock Outstanding}}$
Return On Assets (ROA)	$\frac{\text{Net Income}}{\text{Total Assets}}$
Return On Equity (ROE)	$\frac{\text{Net Income}}{\text{Total Common Equity}}$

**Table 4. Profitability Ratios**

### Market Value Ratios

Market Value Ratios incorporate current stock prices to gauge investor willingness to buy the company's stock. They indicate the investor's perception of the quality of corporate earnings (Bragg, 2007).

Ratio	Formula
Price/Earnings (P/E) Ratio	$\frac{\text{Stock Price}}{\text{EPS}}$
Market to Book (M/B) Ratio	$\frac{\text{Stock Price}}{\text{Book Value Per Share}^*}$

\* Book Value Per Share = Shareholder Equity/Common Stock Outstanding

**Table 5. Market Value Ratios**



## Growth Rates

Finally, growth rates provide trends regarding the contractor's performance over time rather than for a given year. To gauge the growth of the top 10 defense contractors, a simple rate of return or growth rate is used. The values for periods of 1, 5 and 10 years are calculated. The rate of return equation is:  $r \text{ or } g = \left(\frac{FV}{PV}\right)^{\frac{1}{n}} - 1$ . Provided are growth calculations for Sales, Equity and Earnings per Share (EPS) of the contractors. The calculation of equity growth uses Book Value per Share numbers in the rate of return equation. Added to the growth calculations is the 2009 return on investment capital (ROIC), where  $ROIC = \frac{\text{income}}{\text{investment capital}}$ . ROIC is a measure for determining "the company's success in using financing to generate profits (Bernstein et al., 2000, p. 235)." These values are obtained directly from financial analyst sites such as MSN Money or Yahoo Finance.

## Discussion of Financial Analysis

The third stage in the analysis is discussion about observations and potential use of the financial analysis data. The report provides additional analysis to gauge Defense Contractor health compared to other industries. The paper attempts to align this financial information to increase:

- Basic business financial understanding relevant to the government
- Knowledge regarding contractor motives and fee negotiation

The analysis identifies metrics that provide meaningful data to the government and how the government can interpret that data. Since the paper's premise is related to fee negotiation, the analysis focuses on asset growth and benefits of being a defense contractor.

## CHAPTER 4

### DATA ANALYSIS AND RESULTS

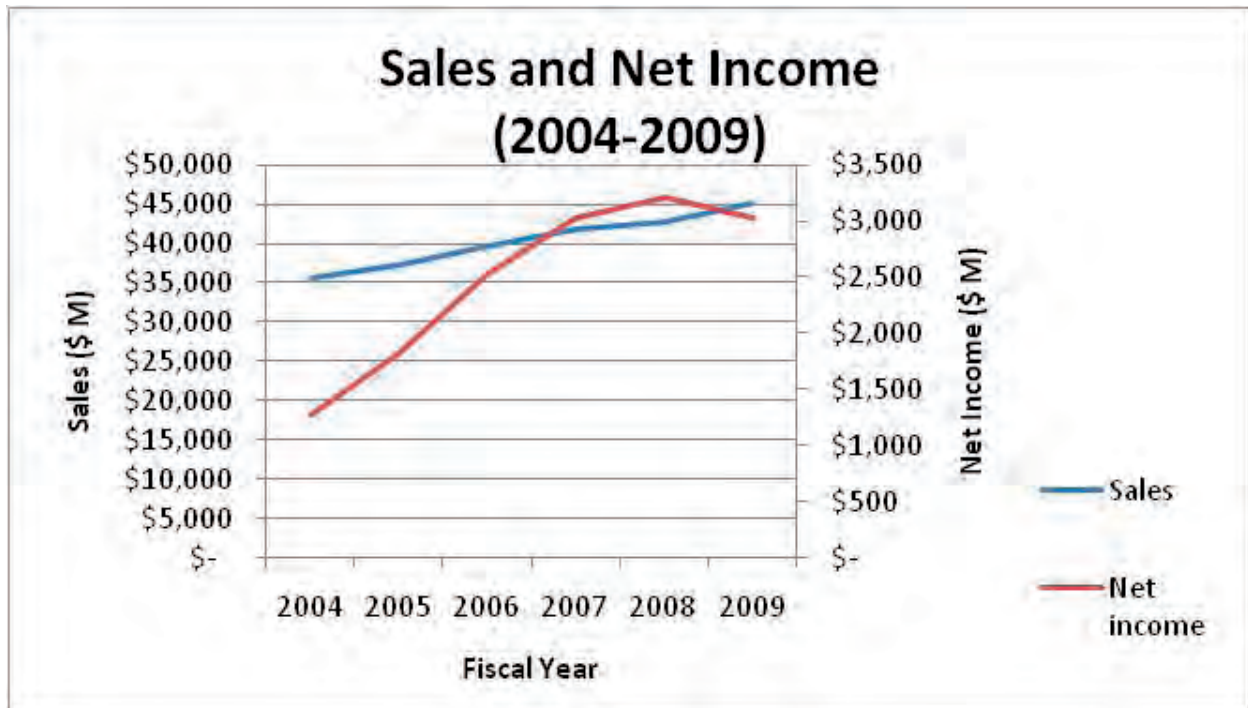
This section captures the data from the financial analysis of the top 10 Defense Contractors. It is structured using the methodology discussed in the previous section. Distributed within the financial analyses are key observations of the data available and potential company financial management decisions. Below are the contractor analyses provided in rank order.

#### Financial Analysis

##### Lockheed Martin Corp.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 35,526	\$ 37,213	\$ 39,620	\$ 41,862	\$ 42,731	\$ 45,189
Percent change in sales each year		4.7%	6.5%	5.7%	2.1%	5.8%
Net Income	\$ 1,266	\$ 1,825	\$ 2,529	\$ 3,033	\$ 3,217	\$ 3,024
Percent change in net income each year		44.2%	38.6%	19.9%	6.1%	-6.0%

**Table 6: Lockheed Martin Corp. 2004-2009 Sales and Net Income**



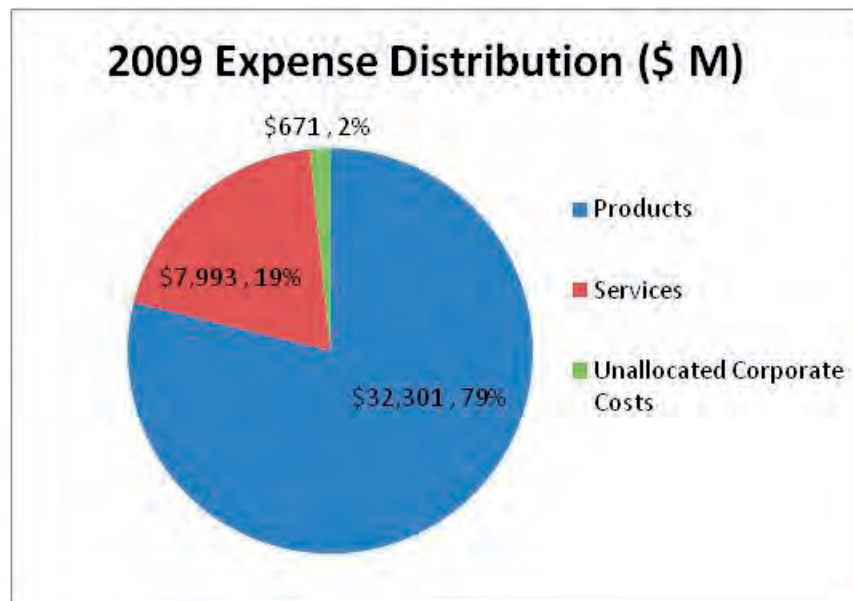
**Figure 1: Lockheed Martin Corp. 2004-2009 Sales and Net Income**

Lockheed Martin Corp. experienced a significant growth in net income between 2005 and 2007

compared to the lesser sales growth in the corresponding years. Its sales show a steady increase over the last five years.

2009 Expense Distribution (\$ M)	
Products	\$32,301
Services	\$7,993
Unallocated Corporate Costs	\$671

**Table 7. Lockheed Martin Corp. 2009 Expense Distribution**

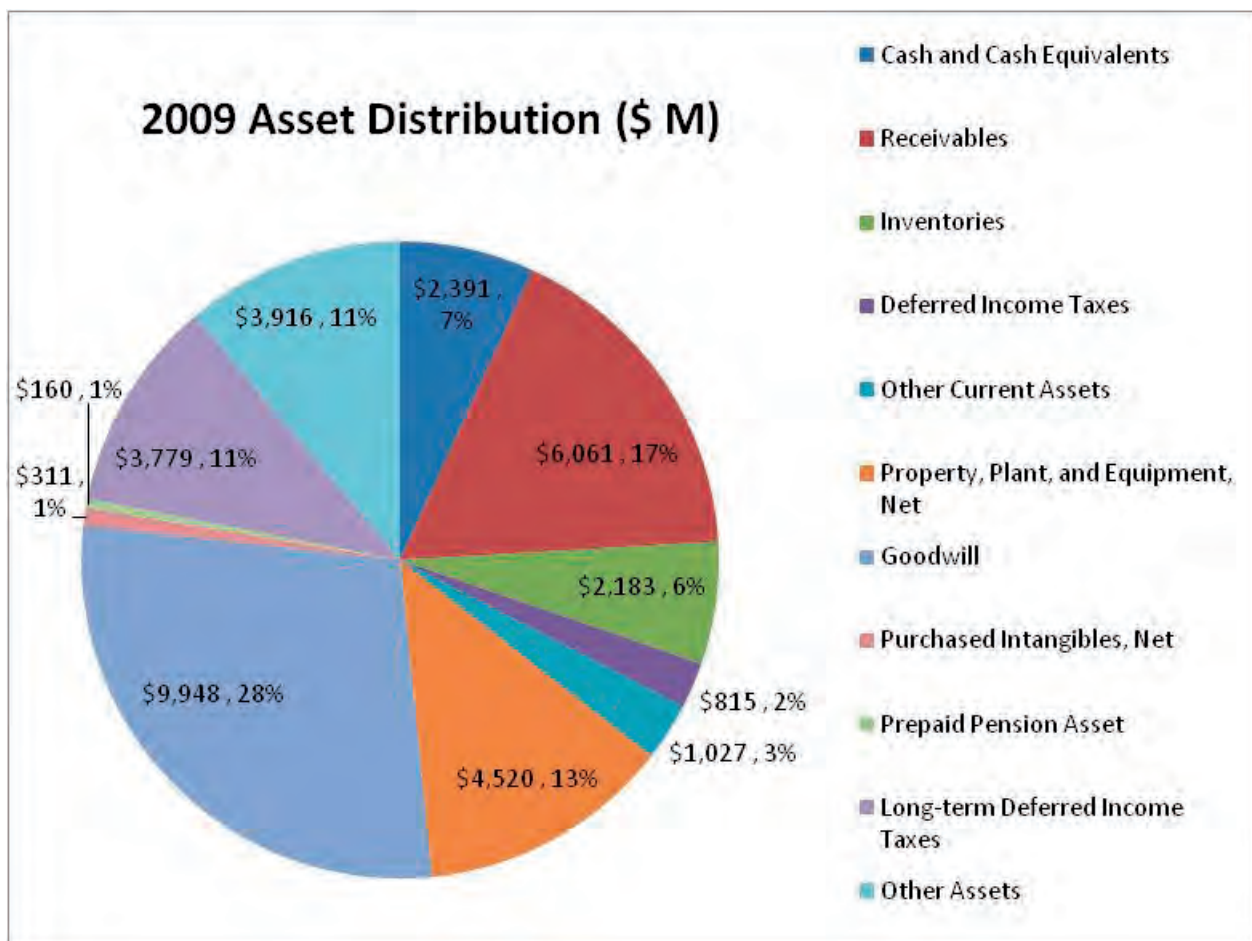


**Figure 2. Lockheed Martin Corp. 2009 Expense Distribution**

The corporation chose not to break out general and administrative (G&A) costs for running the organization. The annual report's inventory section provides only values regarding G&A. The unallocated corporate costs are primarily expenses to cover pension shortfalls that have occurred annually for at least the past three years (Lockheed Martin Corp., 2010).

2009 Asset Distribution (\$ M)	
Cash and Cash Equivalents	\$2,391
Receivables	\$6,061
Inventories	\$2,183
Deferred Income Taxes	\$815
Other Current Assets	\$1,027
Property, Plant, and Equipment, Net	\$4,520
Goodwill	\$9,948
Purchased Intangibles, Net	\$311
Prepaid Pension Asset	\$160
Deferred Income Taxes	\$3,779
Other Assets	\$3,916

**Table 8. Lockheed Martin Corp. 2009 Asset Distribution**



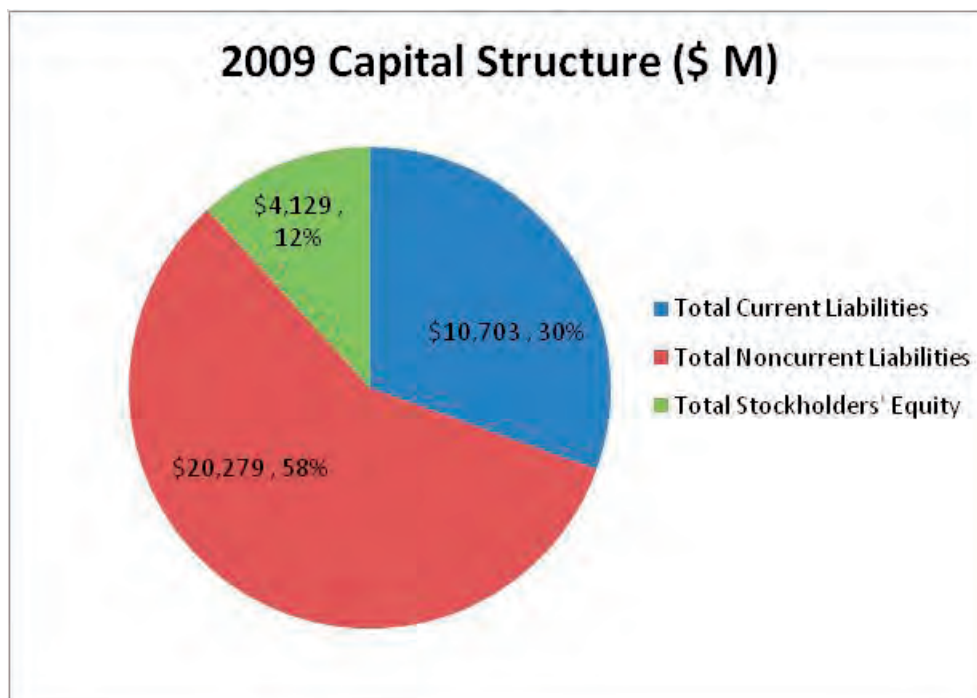
**Figure 3. Lockheed Martin Corp. 2009 Asset Distribution**

Lockheed Martin Corp. has 30 percent of its assets within tangible revenue. These include cash, receivables and inventories. Lockheed Martin has \$4.5 billion in property, plant and equipment.

Goodwill is a major corporate asset at 28 percent. Also of note are the cumulative 13 percent deferred income taxes.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$10,703
Total Noncurrent Liabilities	\$20,279
Total Stockholders' Equity	\$4,129

**Table 9. Lockheed Martin Corp. 2009 Capital Structure Distribution**



**Figure 4. Lockheed Martin Corp. 2009 Capital Structure Distribution**

Much of Lockheed Martin's capital structure is in long-term liabilities. About half of the noncurrent liabilities are attributed to pension liabilities (Lockheed Martin Corp., 2010). The 12 percent equity does not allow much opportunity to leverage this for corporate growth.

### Financial Ratios

Ratio	2009	2008
Current Ratio	1.17	1.01
Total Asset Turnover	1.29	1.28
Debt Ratio	0.88	0.91
Times Interest Earned	15.05	14.79
Gross Profit Margin	9.35%	10.88%
Operating Profit Margin	9.88%	12.01%
Net Profit Margin	6.69%	7.53%
Earnings Per Share (EPS)	\$ 7.78	\$ 7.86
Return on Assets (ROA)	8.61%	9.62%
Return on Equity (ROE)	73.24%	112.29%
Price/Earnings (P/E) Ratio	9.69	10.70
Market to Book (M/B) Ratio	7.10	12.01

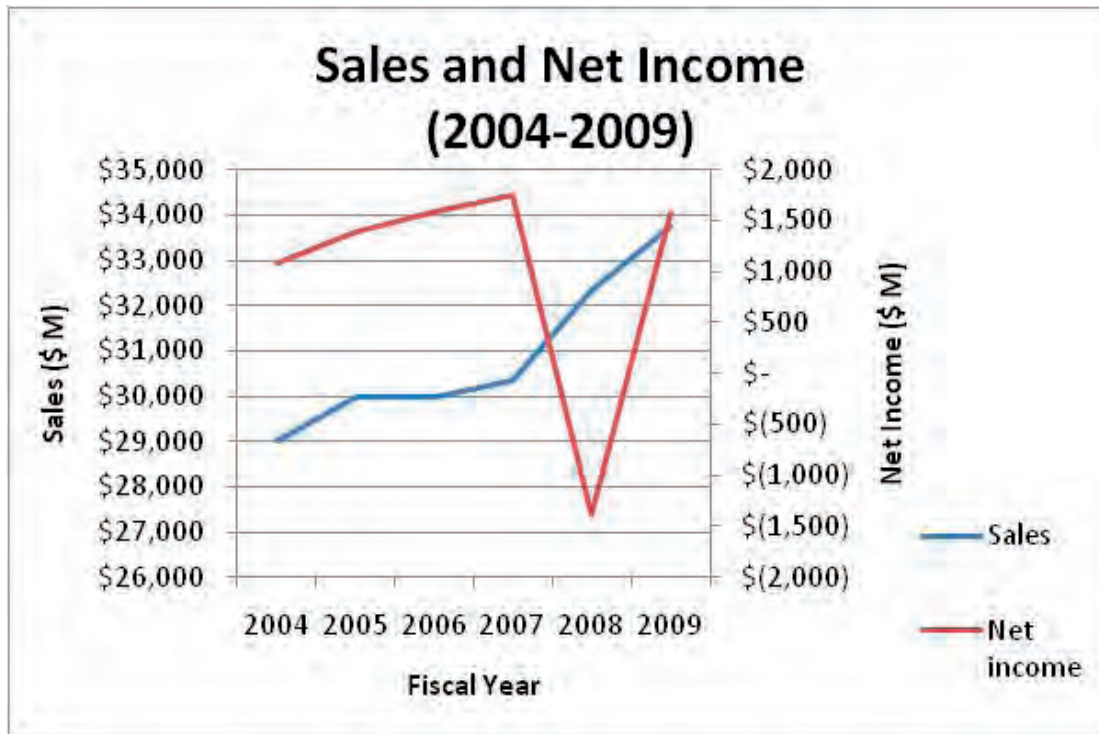
**Table 10. Lockheed Martin Corp. 2008 and 2009 Financial Ratios**

The defense contractor financial ratios are available in a following section in aggregate form with relevant discussion. Lockheed Martin Corp. does not have any ratios to highlight in this section.

### Northrop Grumman Corp.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 29,000	\$ 29,978	\$ 29,991	\$ 30,341	\$ 32,315	\$ 33,755
Percent change in sales each year		3.4%	0.0%	1.2%	6.5%	4.5%
Net Income	\$ 1,080	\$ 1,396	\$ 1,593	\$ 1,751	\$ (1,379)	\$ 1,573
Percent change in net income each year		29.3%	14.1%	9.9%	-178.8%	214.1%

**Table 11. Northrop Grumman Corp. 2004-2009 Sales and Net Income**



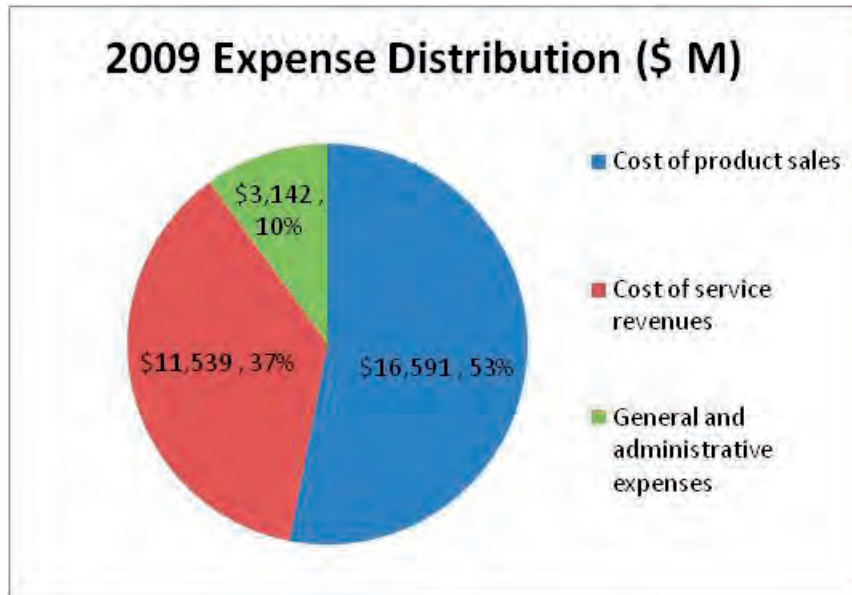
**Figure 5. Northrop Grumman Corp. 2004-2009 Sales and Net Income**

A \$3.1 billion goodwill impairment charge generated the significant drop in the 2008 net income. The impairment was primarily attributed to cost growth and schedule delays due to the effects from Hurricane Ike (Northrop Grumman Corp., 2009). Sales have steadily grown, particularly within the past two years.

2009 Expense Distribution (\$ M)	
Cost of product sales	\$16,591
Cost of service revenues	\$11,539
General and administrative expenses	\$3,142

**Table 12. Northrop Grumman Corp. 2009 Expense Distribution**





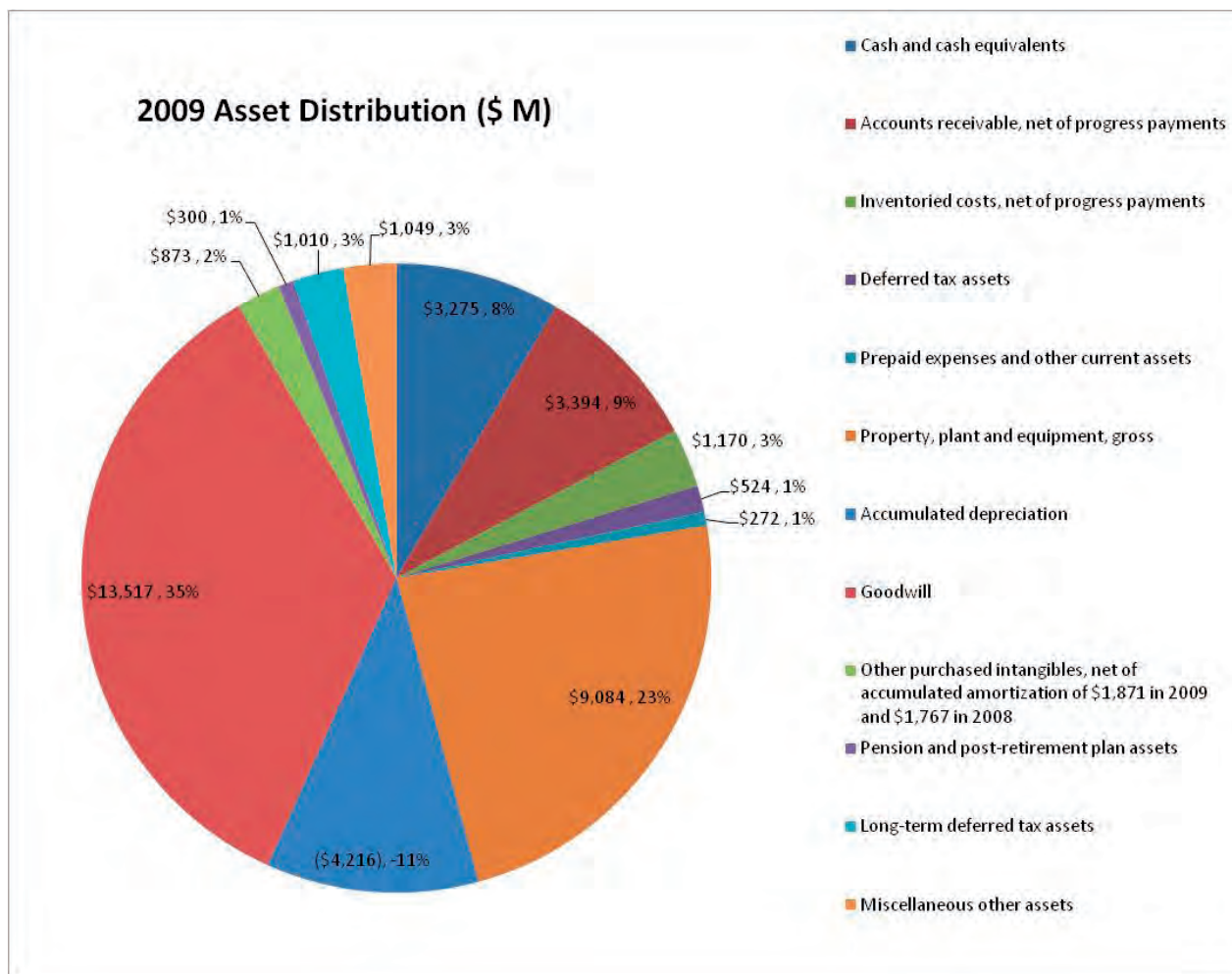
**Figure 6. Northrop Grumman Corp. 2009 Expense Distribution**

The corporation G&A costs for running the organization appear high compared to industry competitors.

2009 Asset Distribution (\$ M)	
Cash and cash equivalents	\$3,275
Accounts receivable, net of progress payments	\$3,394
Inventoried costs, net of progress payments	\$1,170
Deferred tax assets	\$524
Prepaid expenses and other current assets	\$272
Property, plant and equipment, gross	\$9,084
Accumulated depreciation	(\$4,216)
Goodwill	\$13,517
Other purchased intangibles, net of accumulated amortization of \$1,871 in 2009 and \$1,767 in 2008	\$873
Pension and post-retirement plan assets	\$300
Long-term deferred tax assets	\$1,010
Miscellaneous other assets	\$1,049

**Table 13. Northrop Grumman Corp. 2009 Asset Distribution**



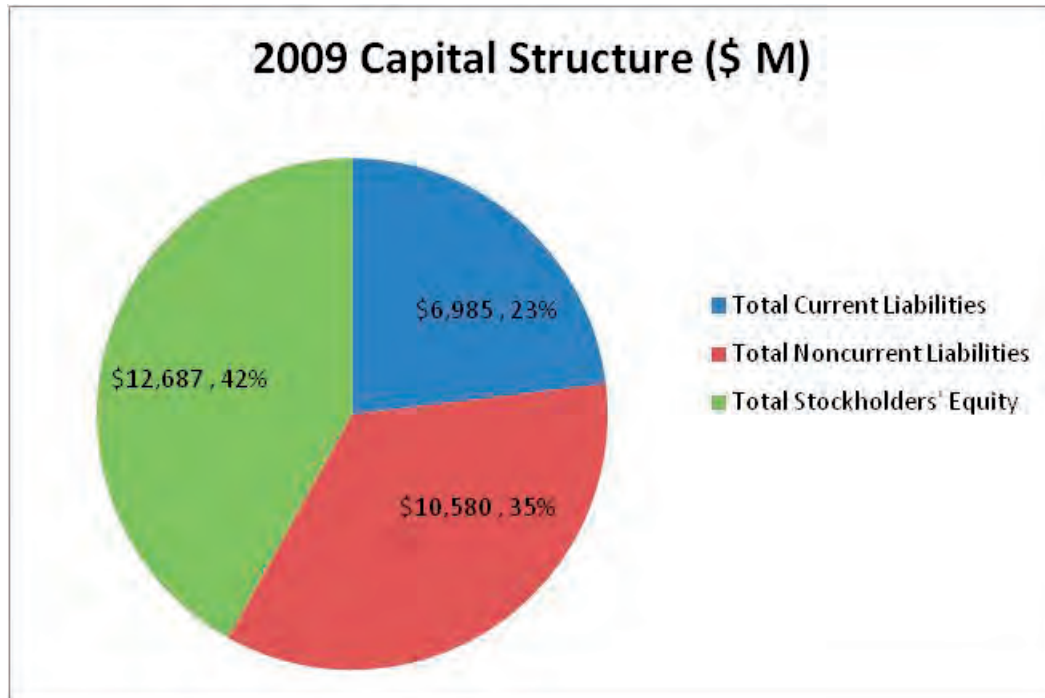


**Figure 7. Northrop Grumman Corp. 2009 Asset Distribution**

Northrop Grumman Corp. is claiming a 46 percent accumulated depreciation of its property, plant and equipment. This indicates looming costs of equipment upgrades and building maintenance. Northrop Grumman Corp. has 20 percent of its assets in cash, receivables and inventories. Goodwill is over one-third of the corporation's assets.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$6,985
Total Noncurrent Liabilities	\$10,580
Total Stockholders' Equity	\$12,687

**Table 14. Northrop Grumman Corp. 2009 Capital Structure Distribution**



**Figure 8. Northrop Grumman Corp. 2009 Capital Structure Distribution**

The corporation's capital structure appears relatively balanced.

#### Financial Ratios

Ratio	2009	2008
Current Ratio	1.24	1.11
Total Asset Turnover	1.12	1.07
Debt Ratio	.58	.61
Times Interest Earned	7.29	21.45
Gross Profit Margin	7.36%	-0.81%
Operating Profit Margin	7.36%	-0.81%
Net Profit Margin	5.0%	-3.9%
Earnings Per Share (EPS)	\$4.87	(\$4.12)
Return on Assets (ROA)	5.57%	-4.18%
Return on Equity (ROE)	13.29%	-10.59%
Price/Earnings (P/E) Ratio	11.48	(10.93)
Market to Book (M/B) Ratio	1.42	1.26

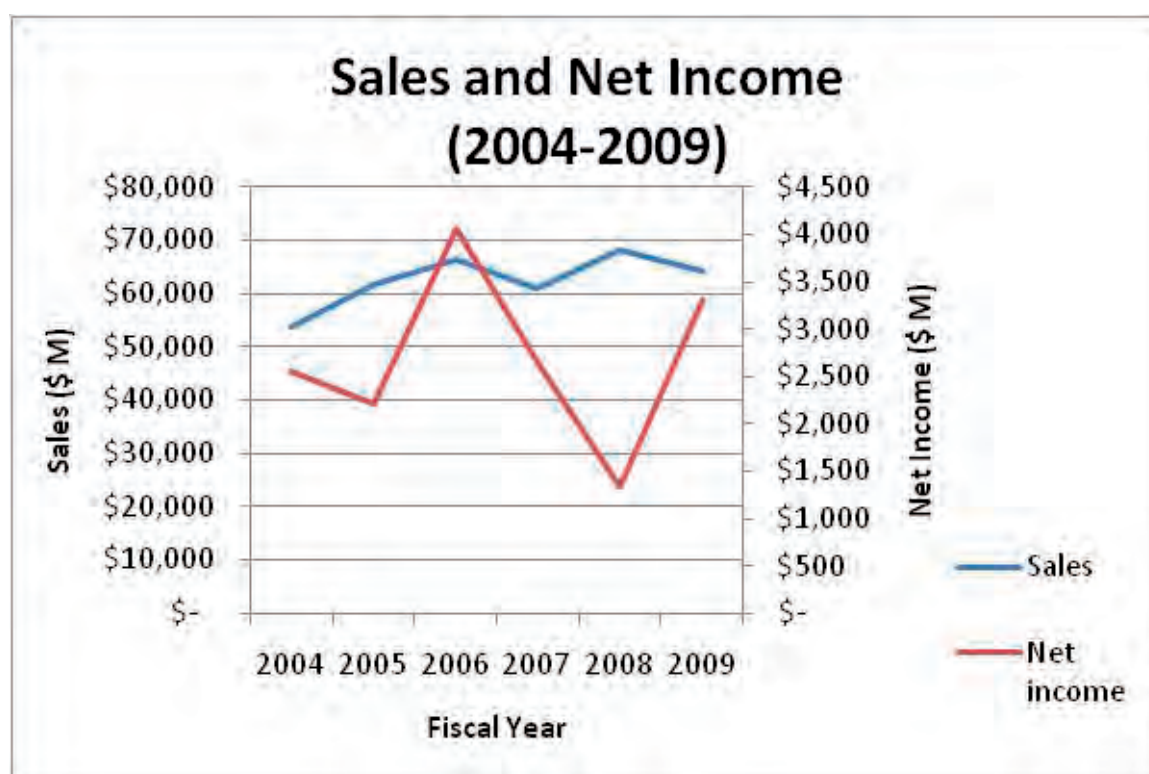
**Table 15. Northrop Grumman Corp. 2008 and 2009 Financial Ratios**

The 2008 impairment charge had an obvious major impact on Northrop Grumman's profitability and shareholder earnings.

## The Boeing Co.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 53,621	\$ 61,530	\$ 66,387	\$ 60,909	\$ 68,281	\$ 64,306
Percent change in sales each year		14.7%	7.9%	-8.3%	12.1%	-5.8%
Net Income	\$ 2,562	\$ 2,206	\$ 4,058	\$ 2,654	\$ 1,335	\$ 3,311
Percent change in net income each year		-13.9%	84.0%	-34.6%	-49.7%	148.0%

**Table 16. The Boeing Co. 2004-2009 Sales and Net Income**

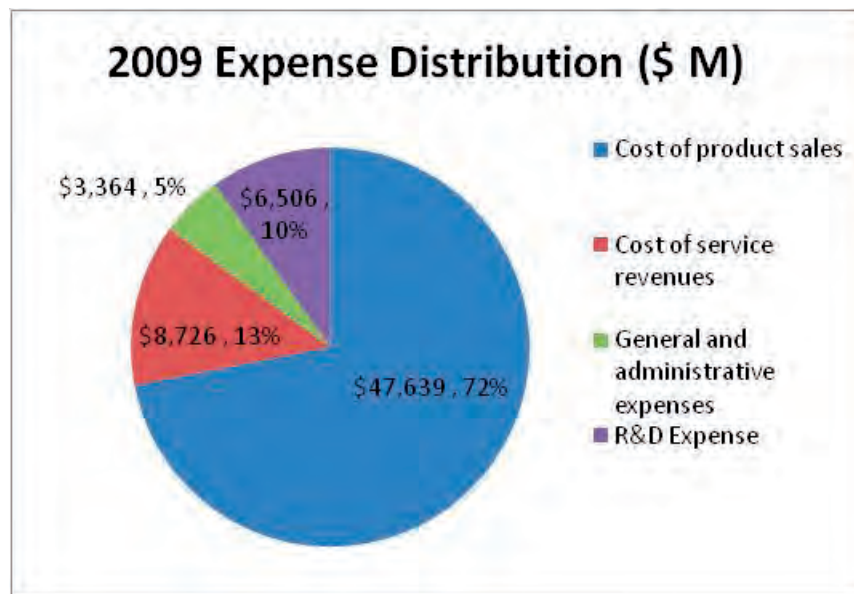


**Figure 9. The Boeing Co. 2004-2009 Sales and Net Income**

First, it is important to note that Boeing only generates approximately 50 percent of its revenue from the defense industry. The remaining revenue stems from the commercial aircraft market. The company has had major swings in both sales and net income over the past six years. Though in 2009, Boeing had a reduction in sales and a large increase in revenue compared to the previous year.

2009 Expense Distribution (\$ M)	
Cost of product sales	\$47,639
Cost of service revenues	\$8,726
General and administrative expenses	\$3,364
R&D Expense	\$6,506

**Table 17. The Boeing Co. 2009 Expense Distribution**

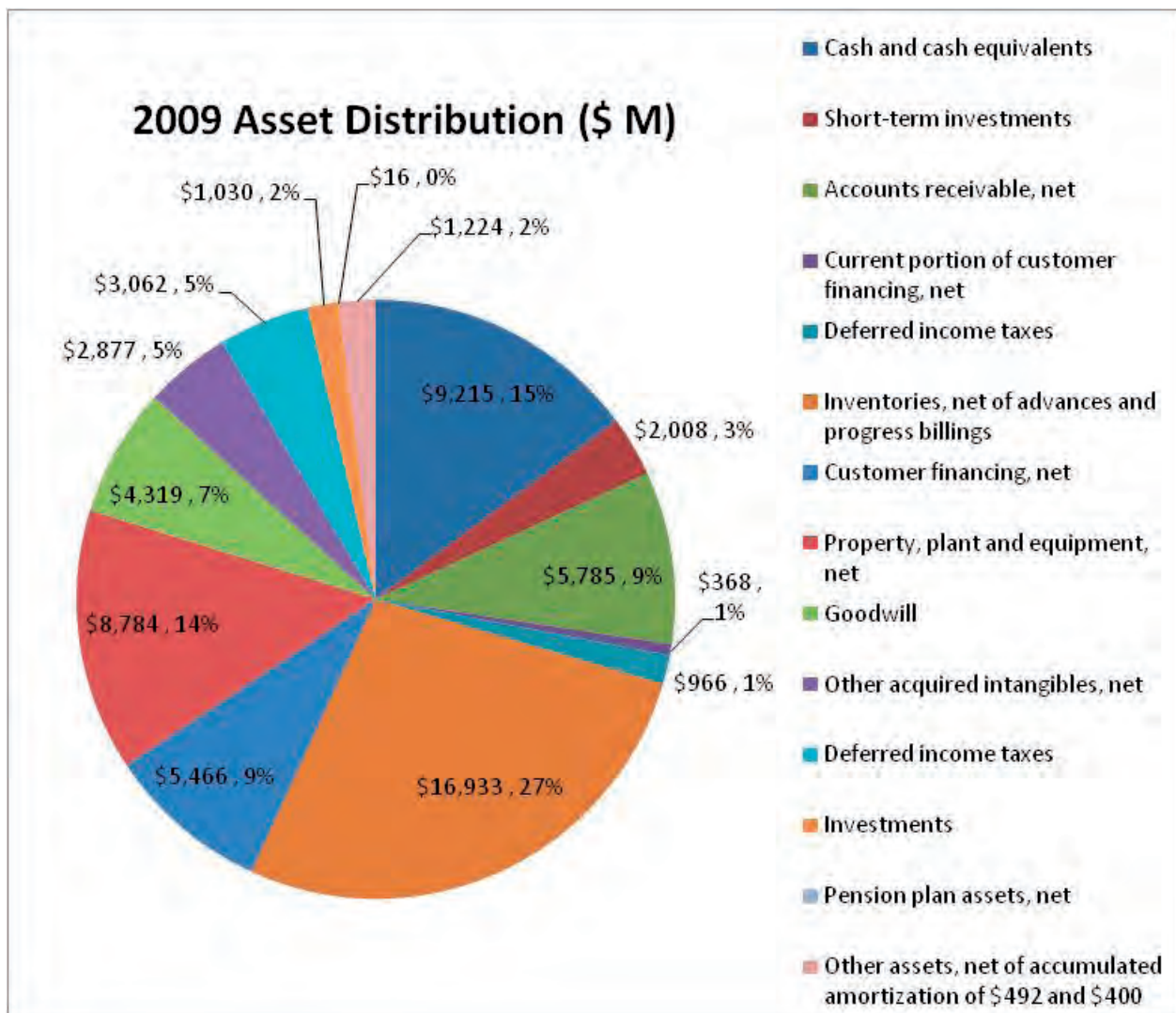


**Figure 10. The Boeing Co. 2009 Expense Distribution**

Boeing spends 10 percent of its expenses on research and development (R&D). This is significantly more than competitors and probably reflects the commercial nature of the company.

2009 Asset Distribution (\$ M)	
Cash and cash equivalents	\$9,215
Short-term investments	\$2,008
Accounts receivable, net	\$5,785
Current portion of customer financing, net	\$368
Deferred income taxes	\$966
Inventories, net of advances and progress billings	\$16,933
Customer financing, net	\$5,466
Property, plant and equipment, net	\$8,784
Goodwill	\$4,319
Other acquired intangibles, net	\$2,877
Deferred income taxes	\$3,062
Investments	\$1,030
Pension plan assets, net	\$16
Other assets, net of accumulated amortization of \$492 and \$400	\$1,224

**Table 18. The Boeing Co. 2009 Asset Distribution**



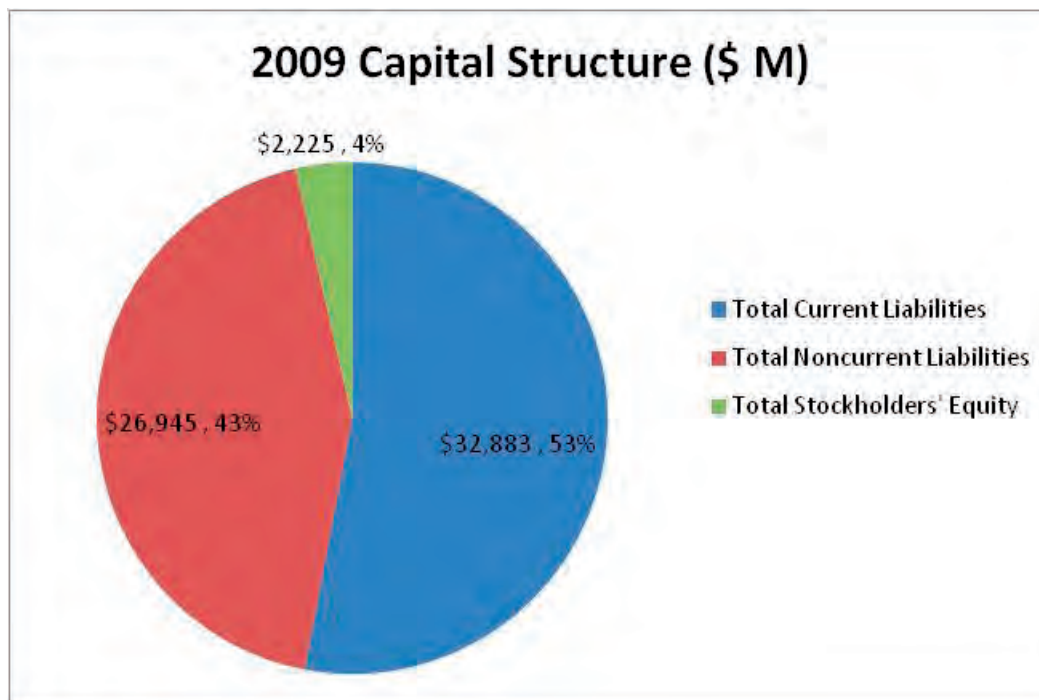
**Figure 11. The Boeing Co. 2009 Asset Distribution**

Of significant note is that Boeing has 51 percent of its assets within cash, receivables and inventories. Boeing has 14 percent of its assets in property, plant and equipment. Though only 2 percent of total assets, Boeing has contributing resources in investments. This may be a reflection of the company's commercial nature since no other defense contractor appears to be making financial investments.



2009 Capital Structure (\$ M)	
Total Current Liabilities	\$32,883
Total Noncurrent Liabilities	\$26,945
Total Stockholders' Equity	\$2,225

**Table 19. The Boeing Co. 2009 Capital Structure Distribution**



**Figure 12. The Boeing Co. 2009 Capital Structure Distribution**

The distribution of the capital structure is alarming and warrants further investigation outside of this research paper. This can indicate that the company is significantly over-leveraged.

### Financial Ratios

Ratio	2009	2008
Current Ratio	1.07	0.84
Total Asset Turnover	1.10	1.13
Debt Ratio	0.96	1.02
Times Interest Earned	6.11	20.78
Gross Profit Margin	17.20%	17.33%
Operating Profit Margin	3.07%	6.49%
Net Profit Margin	2.75%	6.41%
Earnings Per Share (EPS)	\$1.87	\$3.65
Return on Assets (ROA)	2.11%	4.97%
Return on Equity (ROE)	58.97%	-233.98%
Price/Earnings (P/E) Ratio	28.95	11.69
Market to Book (M/B) Ratio	17.17	(27.24)

**Table 20. The Boeing Com. 2008 and 2009 Financial Ratios**

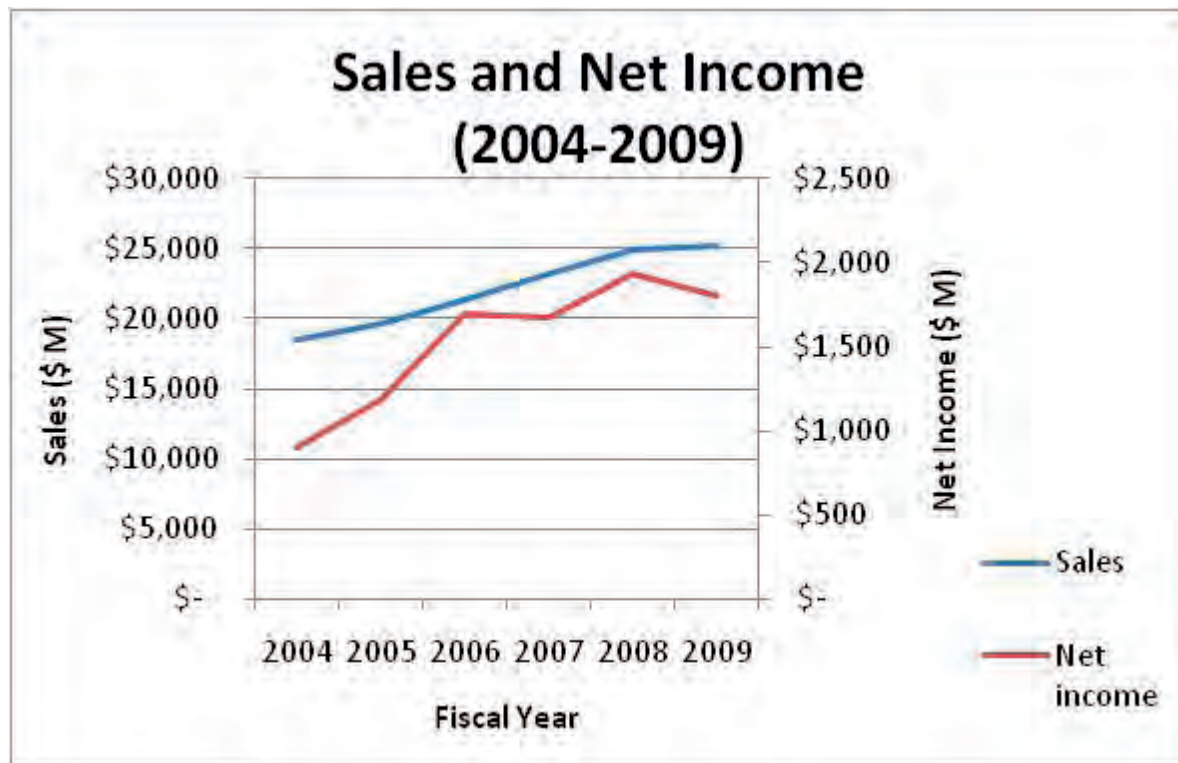
The Boeing Co. does not have any ratios to highlight in this section.

### Raytheon Co.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 18,491	\$ 19,707	\$ 21,301	\$ 23,174	\$ 24,881	\$ 25,183
Percent change in sales each year		6.6%	8.1%	8.8%	7.4%	1.2%
Net Income	\$ 898	\$ 1,187	\$ 1,693	\$ 1,674	\$ 1,936	\$ 1,804
Percent change in net income each year		32.2%	42.6%	-1.1%	15.7%	-6.8%

**Table 21. Raytheon Co. 2004-2009 Sales and Net Income**



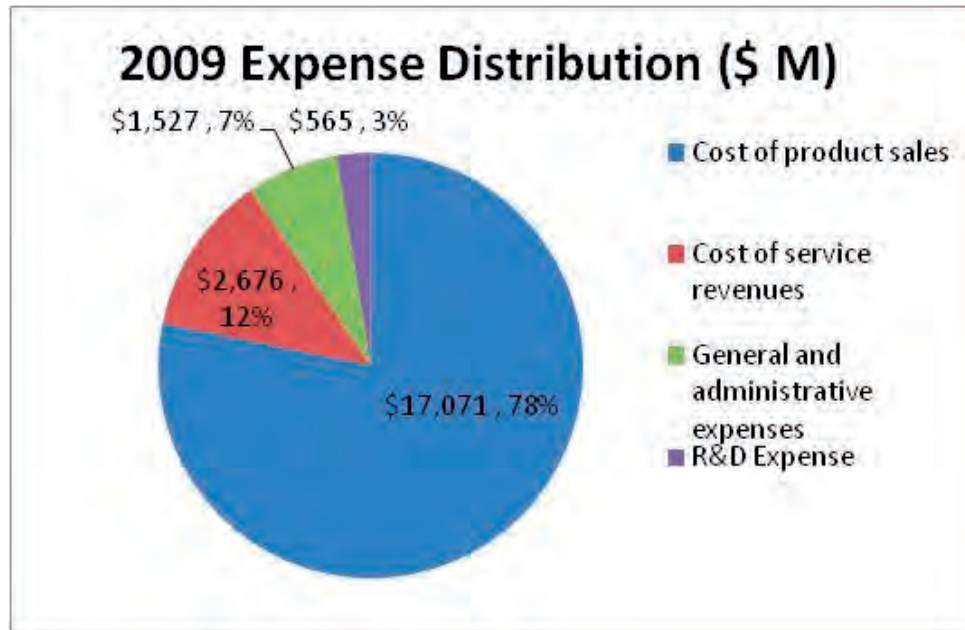


**Figure 13. Raytheon Co. 2004-2009 Sales and Net Income**

Raytheon has experienced growth in both sales and net income. The growth in net income has far exceeded the sales. This is a good business objective, but pursuing the cause is outside the scope of this paper.

2009 Expense Distribution (\$ M)	
Cost of product sales	\$17,071
Cost of service revenues	\$2,676
General and administrative expenses	\$1,527
R&D Expense	\$565

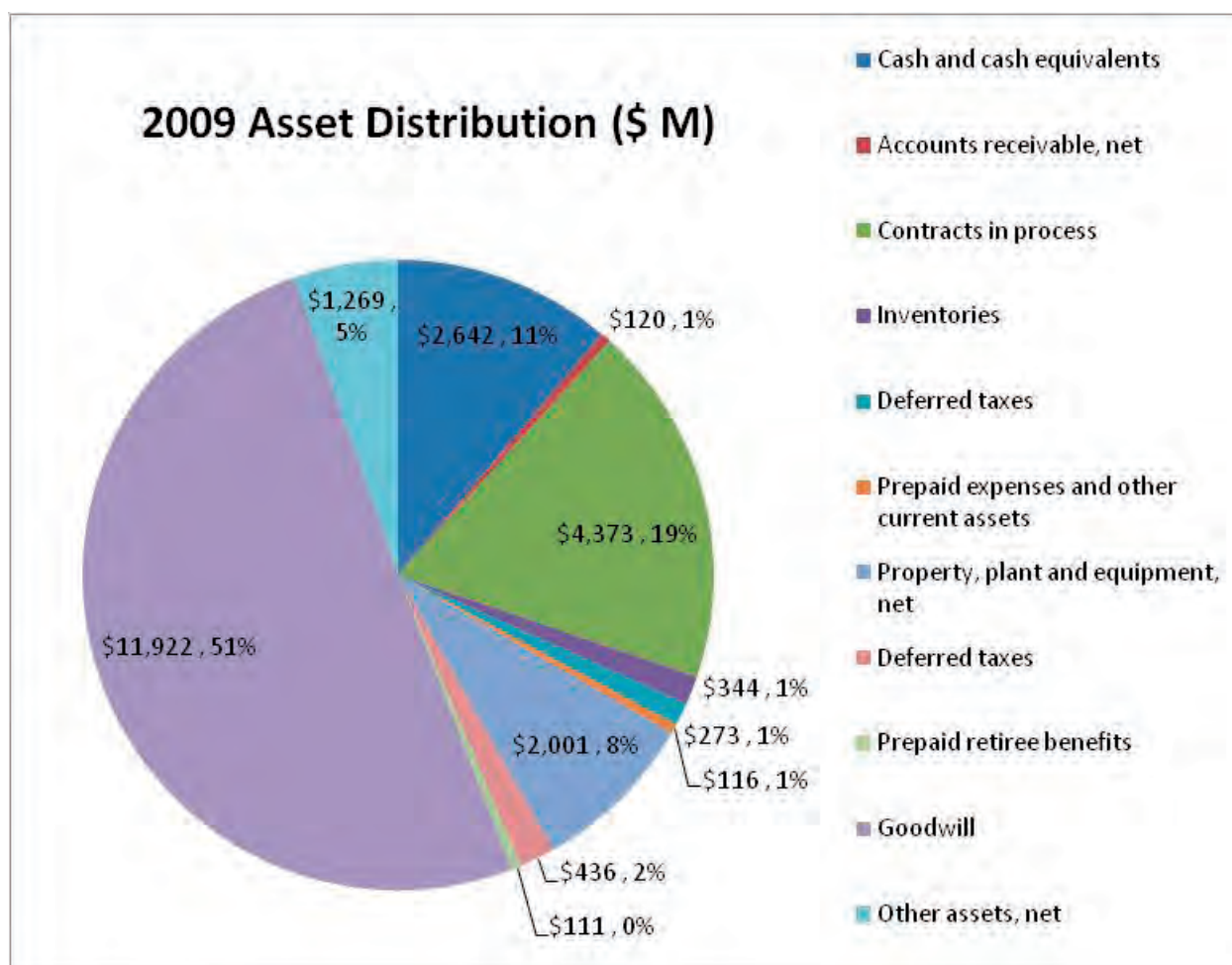
**Table 22. Raytheon Co. 2009 Expense Distribution**



**Figure 14. Raytheon Co. 2009 Expense Distribution**

2009 Asset Distribution (\$ M)	
Cash and cash equivalents	\$2,642
Accounts receivable, net	\$120
Contracts in process	\$4,373
Inventories	\$344
Current tax asset	\$0
Deferred taxes	\$273
Prepaid expenses and other current assets	\$116
Property, plant and equipment, net	\$2,001
Deferred taxes	\$436
Prepaid retiree benefits	\$111
Goodwill	\$11,922
Other assets, net	\$1,269

**Table 23. Raytheon Co. 2009 Asset Distribution**

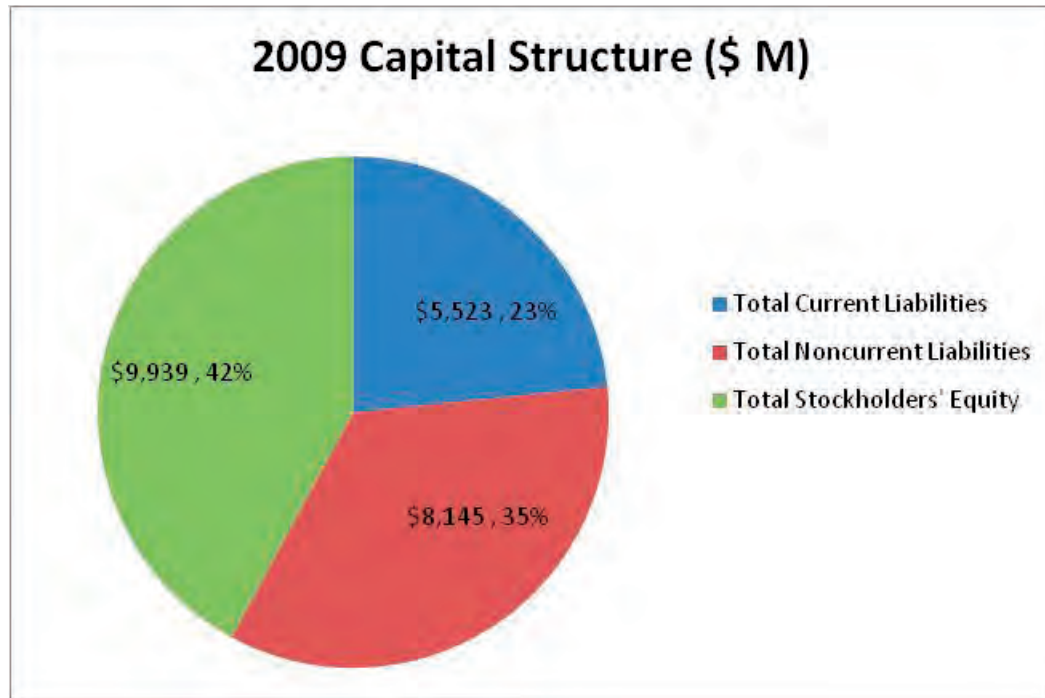


**Figure 15. Raytheon Co. 2009 Asset Distribution**

Of significant note is that 51 percent of Raytheon assets is in goodwill. This indicates that the company has gained significant assets through the acquisition of other companies. The topic of goodwill is addressed in the Discussion of Financial Analysis section of this paper. Raytheon has 32 percent of its assets in cash, receivables and inventories and 8 percent in property, plant and equipment.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$5,523
Total Noncurrent Liabilities	\$8,145
Total Stockholders' Equity	\$9,939

**Table 24. Raytheon Co. 2009 Capital Structure Distribution**



**Figure 16. Raytheon Co. 2009 Capital Structure Distribution**

The corporation's capital structure appears relatively balanced.

#### Financial Ratios

Ratio	2009	2008
Current Ratio	1.42	1.44
Total Asset Turnover	1.05	1.00
Debt Ratio	0.58	0.60
Times Interest Earned	24.73	20.31
Gross Profit Margin	12.23%	11.31%
Operating Profit Margin	7.95%	7.33%
Net Profit Margin	7.78%	7.21%
Earnings Per Share (EPS)	\$4.89	\$3.92
Return on Assets (ROA)	8.20%	7.23%
Return on Equity (ROE)	19.69%	18.40%
Price/Earnings (P/E) Ratio	10.44	13.14
Market to Book (M/B) Ratio	2.06	\$2.42

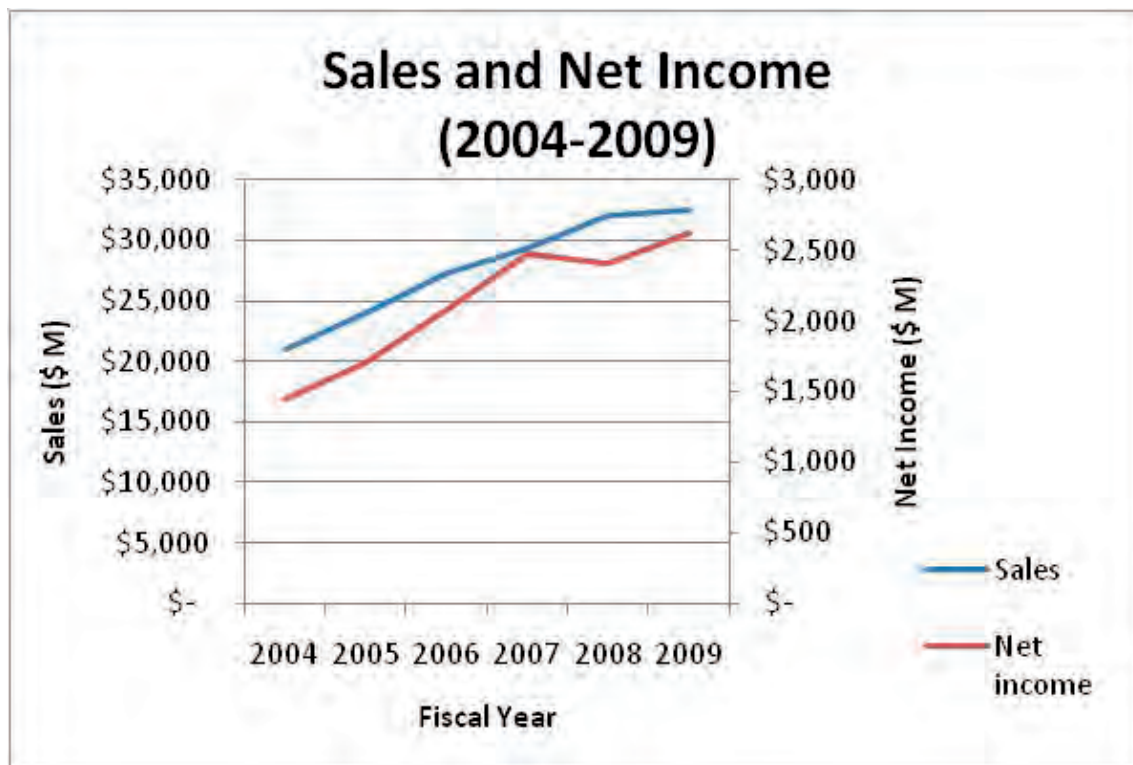
**Table 25. Raytheon Co. 2008 and 2009 Financial Ratios**

Raytheon Co. does not have any ratios to highlight in this section.

## General Dynamics Corp.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 20,975	\$ 24,063	\$ 27,240	\$ 29,300	\$ 31,981	\$ 32,466
Percent change in sales each year		14.7%	13.2%	7.6%	9.2%	1.5%
Net Income	\$ 1,448	\$ 1,710	\$ 2,080	\$ 2,478	\$ 2,407	\$ 2,628
Percent change in net income each year		18.1%	21.6%	19.1%	-2.9%	9.2%

**Table 26. General Dynamics Corp. 2004-2009 Sales and Net Income**

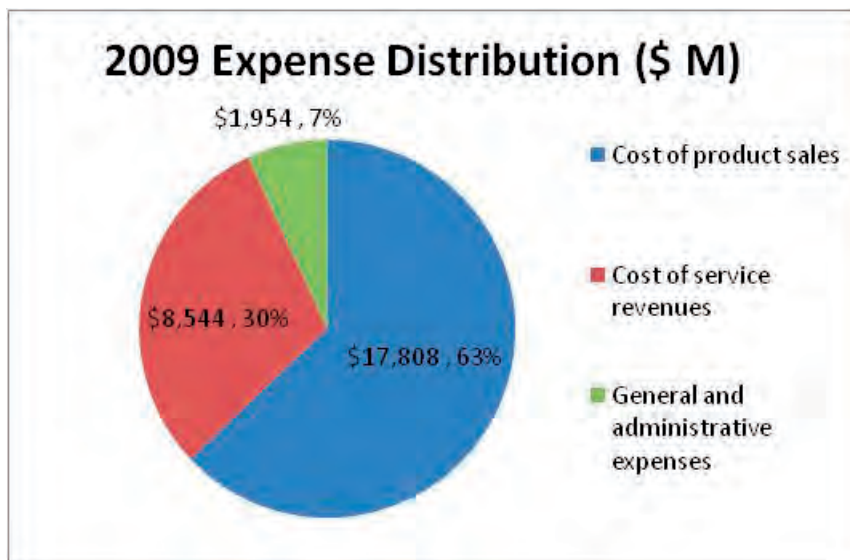


**Figure 17. General Dynamics Corp. 2004-2009 Sales and Net Income**

General Dynamics Corp. has experienced growth in sales, though it has a progressively decreasing trend over the past five years. The net income is following the same pattern as the sales.

2009 Expense Distribution (\$ M)	
Cost of product sales	\$17,808
Cost of service revenues	\$8,544
General and administrative expenses	\$1,954

**Table 27. General Dynamics Corp. 2009 Expense Distribution**

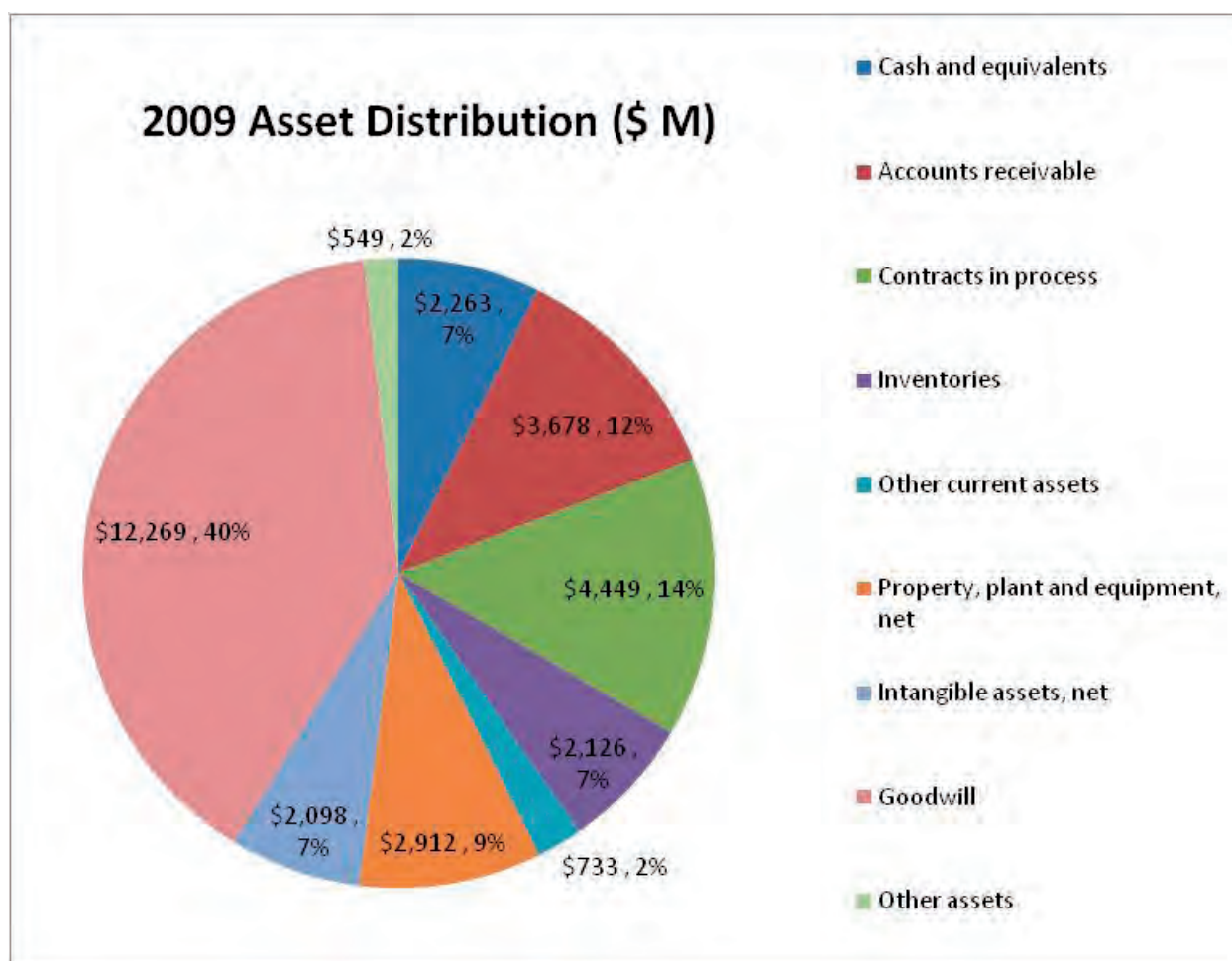


**Figure 18. General Dynamics Corp. 2009 Expense Distribution**

2009 Asset Distribution (\$ M)	
Cash and equivalents	\$2,263
Accounts receivable	\$3,678
Contracts in process	\$4,449
Inventories	\$2,126
Other current assets	\$733
Property, plant and equipment, net	\$2,912
Intangible assets, net	\$2,098
Goodwill	\$12,269
Other assets	\$549

**Table 28. General Dynamics Corp. 2009 Asset Distribution**



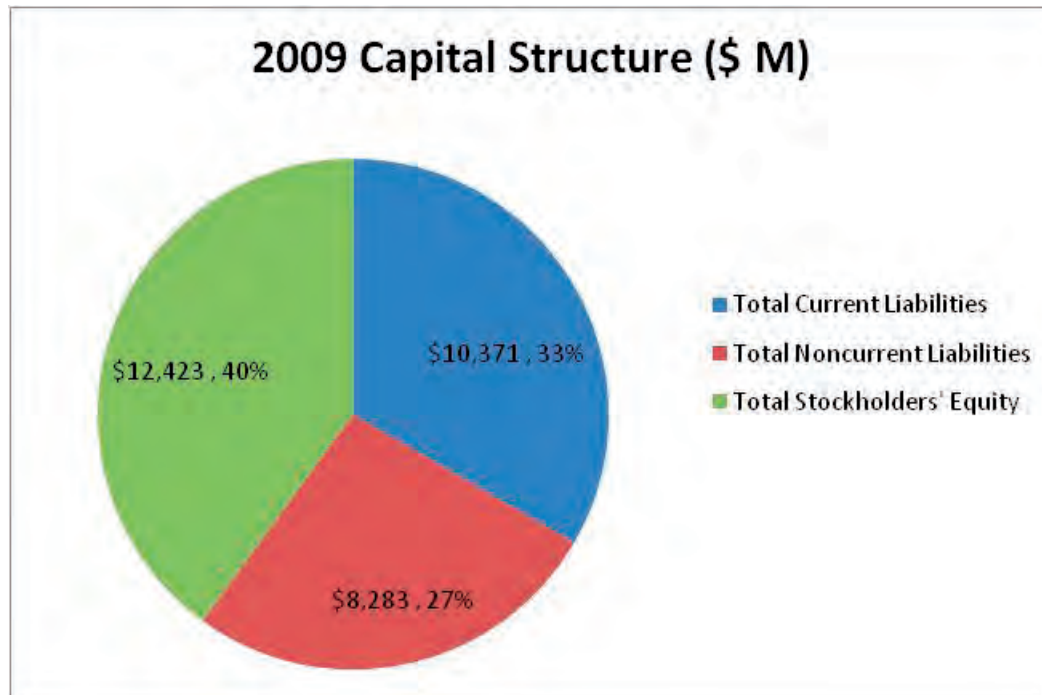


**Figure 19. General Dynamics Corp. 2009 Asset Distribution**

Of significant note is that General Dynamics has 40 percent of its assets in cash, receivables, contracts and inventories. Goodwill rounds out the other bulk of the assets at 40 percent. General Dynamics also has 9 percent in property, plant and equipment.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$10,371
Total Noncurrent Liabilities	\$8,283
Total Stockholders' Equity	\$12,423

**Table 29. General Dynamics Corp. 2009 Capital Structure Distribution**



**Figure 20. General Dynamics Corp. 2009 Capital Structure Distribution**

The corporation's capital structure appears relatively balanced.

#### Financial Ratios

Ratio	2009	2008
Current Ratio	1.28	1.15
Total Asset Turnover	1.03	1.03
Debt Ratio	0.60	0.65
Times Interest Earned	22.97	55.35
Gross Profit Margin	11.49%	12.47%
Operating Profit Margin	11.49%	12.47%
Net Profit Margin	7.49%	8.39%
Earnings Per Share (EPS)	\$6.21	\$6.21
Return on Assets (ROA)	7.70%	8.67%
Return on Equity (ROE)	19.27%	24.46%
Price/Earnings (P/E) Ratio	10.98	9.28
Market to Book (M/B) Ratio	2.12	2.27

**Table 30. General Dynamics Corp. 2008 and 2009 Financial Ratios**

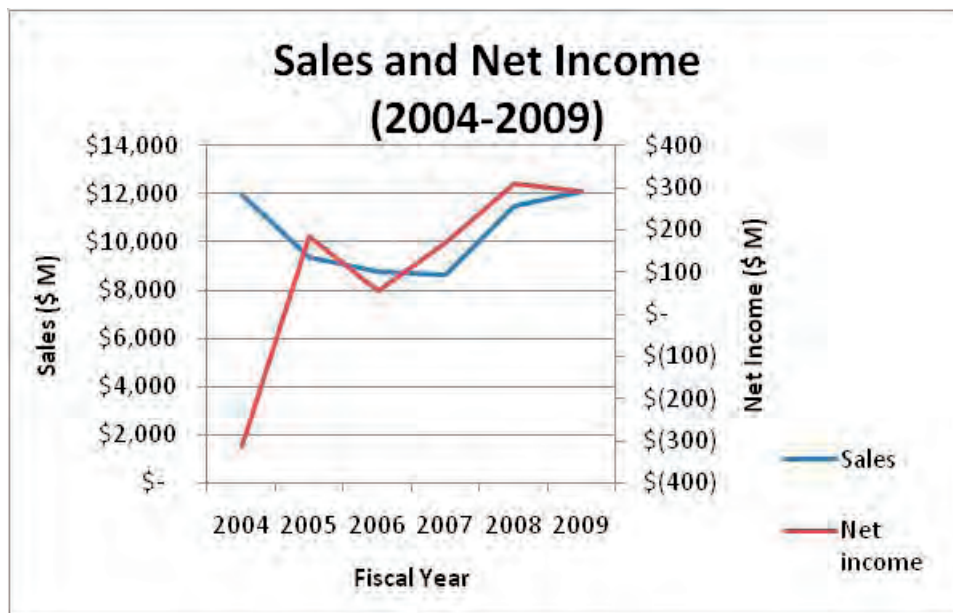
General Dynamics Corp. does not have any ratios to highlight in this section.



## KBR Inc.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 11,960	\$ 9,351	\$ 8,798	\$ 8,642	\$ 11,493	\$ 12,060
Percent change in sales each year		-21.8%	-5.9%	-1.8%	33.0%	4.9%
Net Income	\$ (314)	\$ 185	\$ 54	\$ 170	\$ 308	\$ 290
Percent change in net income each year		158.9%	-70.8%	214.8%	81.2%	-5.8%

**Table 31. KBR Inc. 2004-2009 Sales and Net Income**



**Figure 21. KBR Inc. 2004-2009 Sales and Net Income**

KBR Inc. is strictly a service-provider organization to the DoD. In 2005-2007, KBR experienced a substantial loss in sales. For the past two years, sales have grown to slightly above the 2004 level.

2009 Expense Distribution (\$ M)	
Cost of service revenues	\$11,348
General and administrative expenses	\$217

**Table 32. KBR Inc. 2009 Expense Distribution**

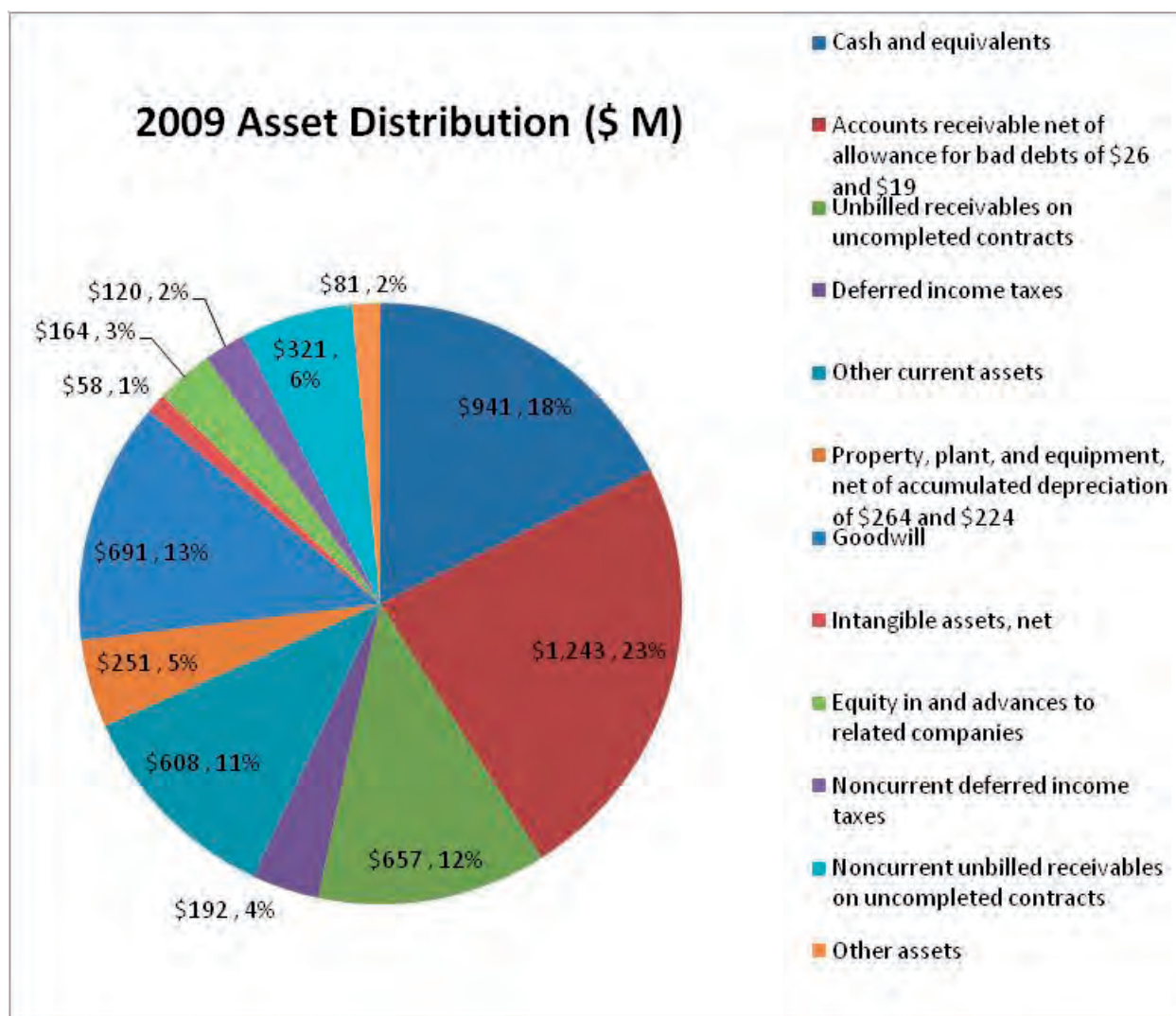


**Figure 22. KBR Inc. 2009 Expense Distribution**

From KBR Inc.'s expense distribution, minimizing G&A appears to be the strategy.

2009 Asset Distribution (\$ M)	
Cash and equivalents	\$941
Accounts receivable net of allowance for bad debts of \$26 and \$19	\$1,243
Unbilled receivables on uncompleted contracts	\$657
Deferred income taxes	\$192
Other current assets	\$608
Property, plant, and equipment, net of accumulated depreciation of \$264 and \$224	\$251
Goodwill	\$691
Intangible assets, net	\$58
Equity in and advances to related companies	\$164
Noncurrent deferred income taxes	\$120
Noncurrent unbilled receivables on uncompleted contracts	\$321
Other assets	\$81

**Table 33. KBR Inc. 2009 Asset Distribution**

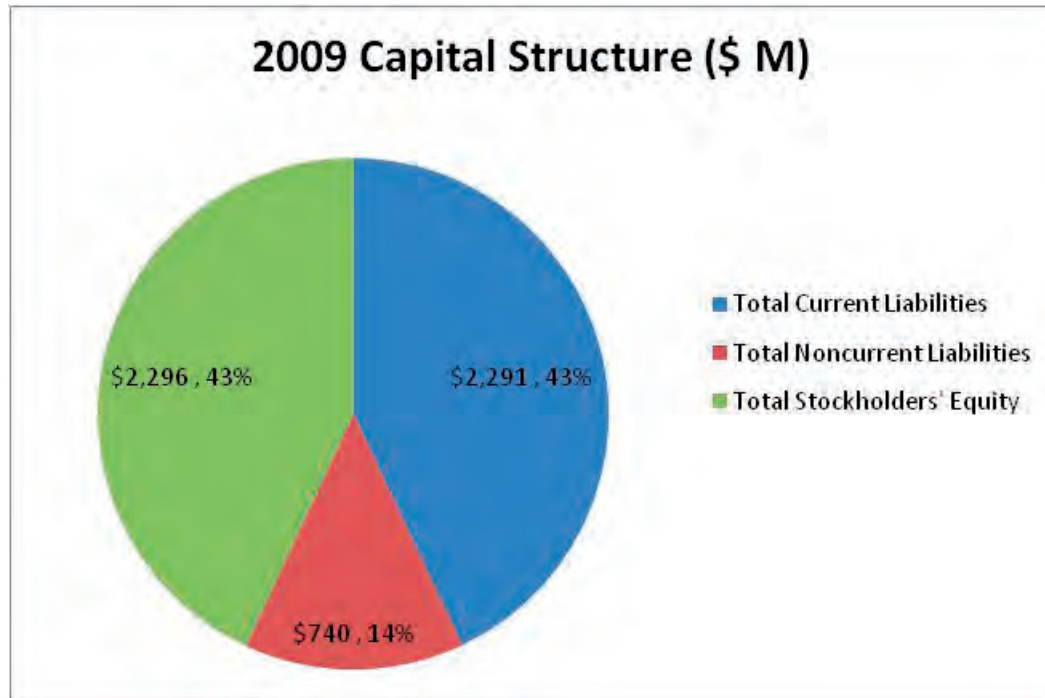


**Figure 23. KBR Inc. 2009 Asset Distribution**

KBR Inc. has 53 percent of its assets in cash or future revenue. Goodwill represents the next largest segment at 13 percent.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$2,291
Total Noncurrent Liabilities	\$740
Total Stockholders' Equity	\$2,296

**Table 34. KBR Inc. 2009 Capital Structure Distribution**



**Figure 24. KBR Inc. 2009 Capital Structure Distribution**

The corporation's capital structure appears balanced between equity and liability. The large current liability causes concern and could indicate a lack of long-term planning.

#### Financial Ratios

Ratio	2009	2008
Current Ratio	1.59	1.36
Total Asset Turnover	2.27	1.97
Debt Ratio	0.57	0.65
Times Interest Earned	536.00	15.46
Gross Profit Margin	4.43%	4.67%
Operating Profit Margin	4.43%	4.67%
Net Profit Margin	2.40%	2.75%
Earnings Per Share (EPS)	\$1.80	\$1.91
Return on Assets (ROA)	5.44%	5.42%
Return on Equity (ROE)	12.63%	15.68%
Price/Earnings (P/E) Ratio	10.55	7.96
Market to Book (M/B) Ratio	1.33	1.25

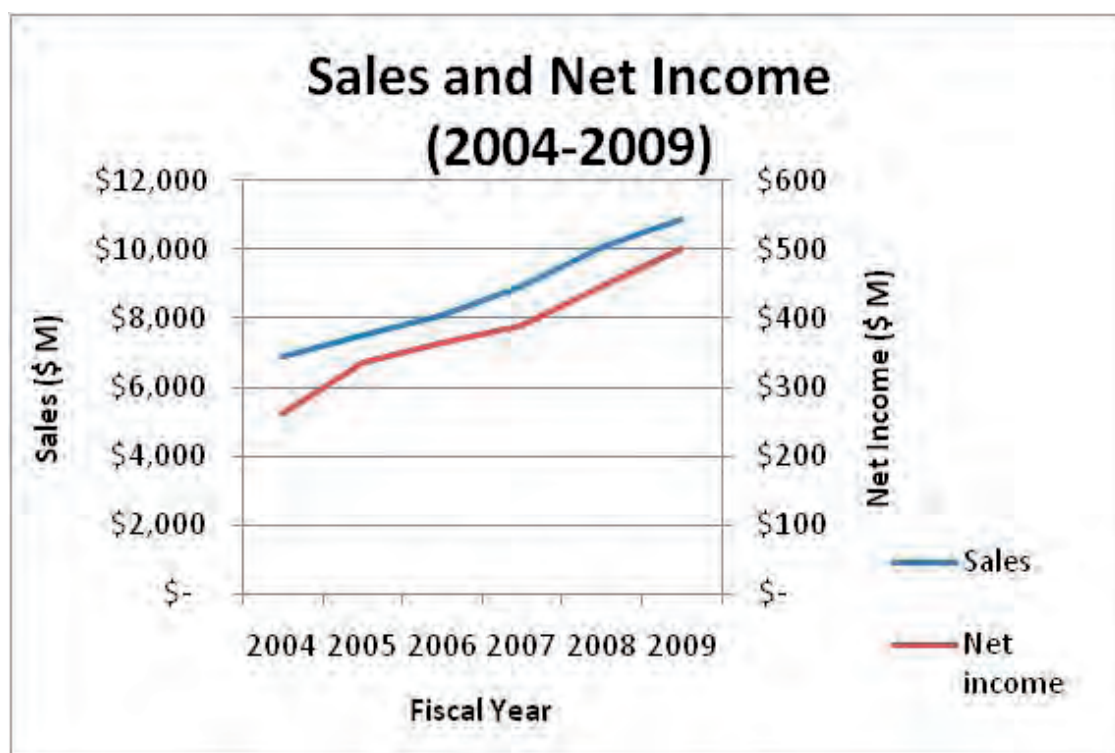
**Table 35. KBR Inc. 2008 and 2009 Financial Ratios**

KBR Inc. does not have any ratios to highlight in this section.

## SAIC Inc.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 6,910	\$ 7,518	\$ 8,061	\$ 8,926	\$ 10,070	\$ 10,846
Percent change in sales each year		8.8%	7.2%	10.7%	12.8%	7.7%
Net Income	\$ 263	\$ 335	\$ 365	\$ 390	\$ 447	\$ 500
Percent change in net income each year		27.4%	9.0%	6.8%	14.6%	11.9%

**Table 36. SAIC Inc. 2004-2009 Sales and Net Income**

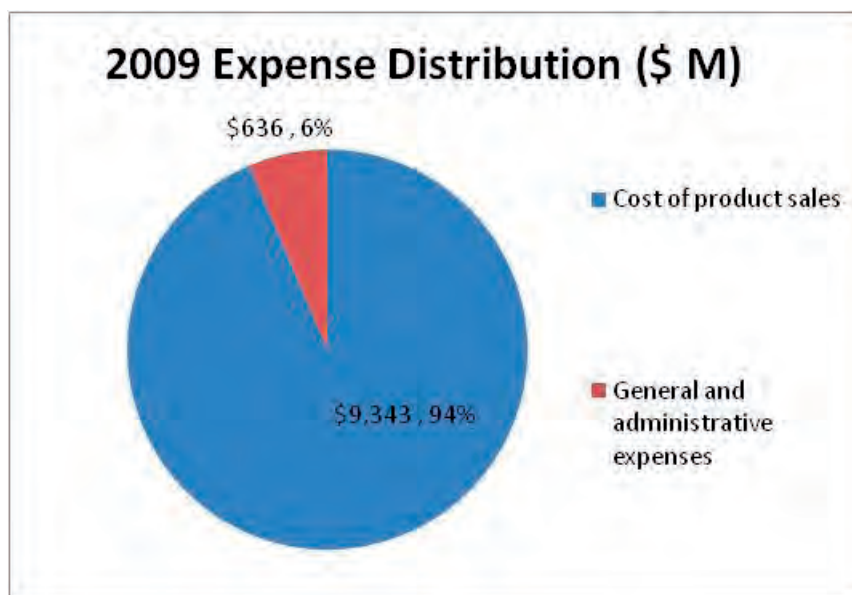


**Figure 25. SAIC Inc. 2004-2009 Sales and Net Income**

SAIC Inc. has experienced steady growth in both sales and net income.

2009 Expense Distribution (\$ M)	
Cost of product sales	\$9,343
General and administrative expenses	\$636

**Table 37. SAIC Inc. 2009 Expense Distribution**

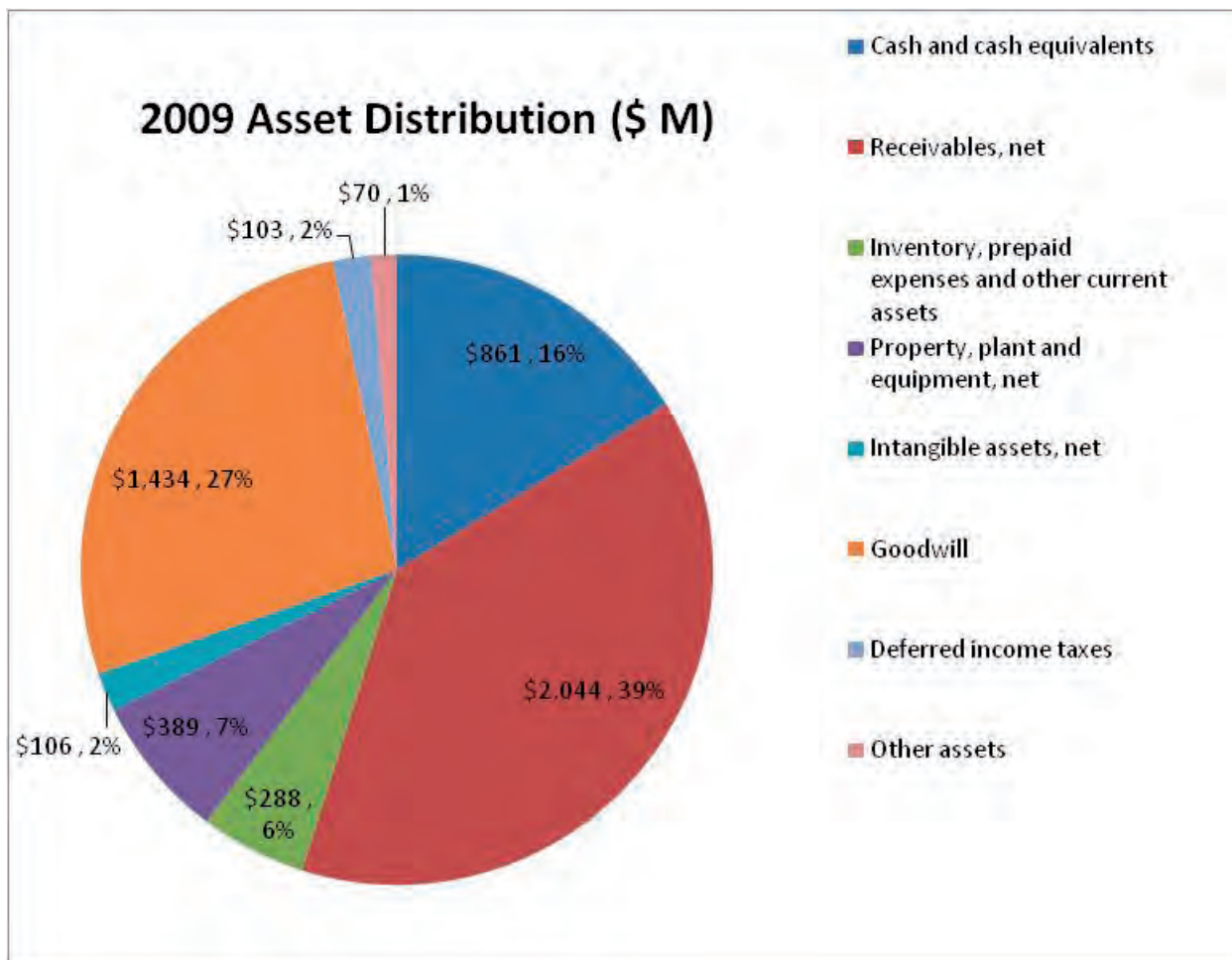


**Figure 26. SAIC Inc. 2009 Expense Distribution**

2009 Asset Distribution (\$ M)	
Cash and cash equivalents	\$861
Receivables, net	\$2,044
Inventory, prepaid expenses and other current assets	\$288
Property, plant and equipment, net	\$389
Intangible assets, net	\$106
Goodwill	\$1,434
Deferred income taxes	\$103
Other assets	\$70

**Table 38. SAIC Inc. 2009 Asset Distribution**



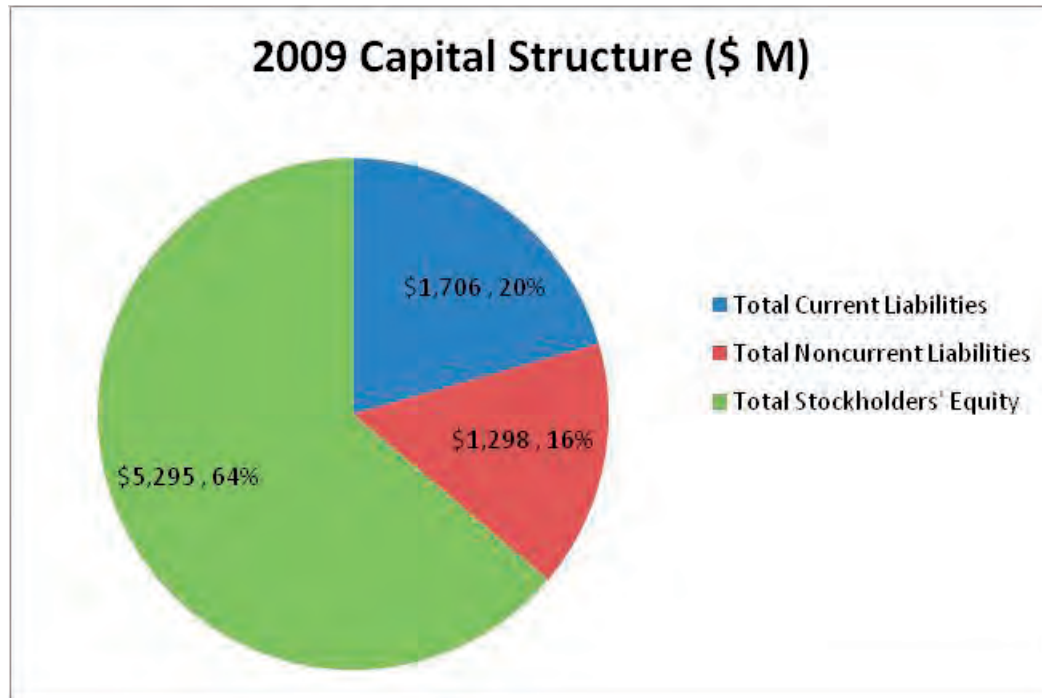


**Figure 27. SAIC Inc. 2009 Asset Distribution**

SAIC Inc. has 61 percent of its assets in cash, receivables, and inventories. This percentage is the largest of the defense contractors. Goodwill accounts for 27 percent of the total asset and property; plant and equipment for 7 percent.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$1,706
Total Noncurrent Liabilities	\$1,298
Total Stockholders' Equity	\$5,295

**Table 39. SAIC Inc. 2009 Capital Structure Distribution**



**Figure 28. SAIC Inc. 2009 Capital Structure Distribution**

Based on the capital structure distribution, SAIC uses equity as a major source of financing.

#### Financial Ratios

Ratio	2009	2008
Current Ratio	1.87	1.91
Total Asset Turnover	2.05	1.99
Debt Ratio	0.57	0.59
Times Interest Earned	11.43	10.21
Gross Profit Margin	13.86%	13.68%
Operating Profit Margin	7.99%	7.71%
Net Profit Margin	4.58%	4.49%
Earnings Per Share (EPS)	\$1.24	\$1.08
Return on Assets (ROA)	9.39%	8.95%
Return on Equity (ROE)	21.69%	21.69%
Price/Earnings (P/E) Ratio	15.27	18.04
Market to Book (M/B) Ratio	3.33	3.87

**Table 40. SAIC Inc. 2008 and 2009 Financial Ratios**

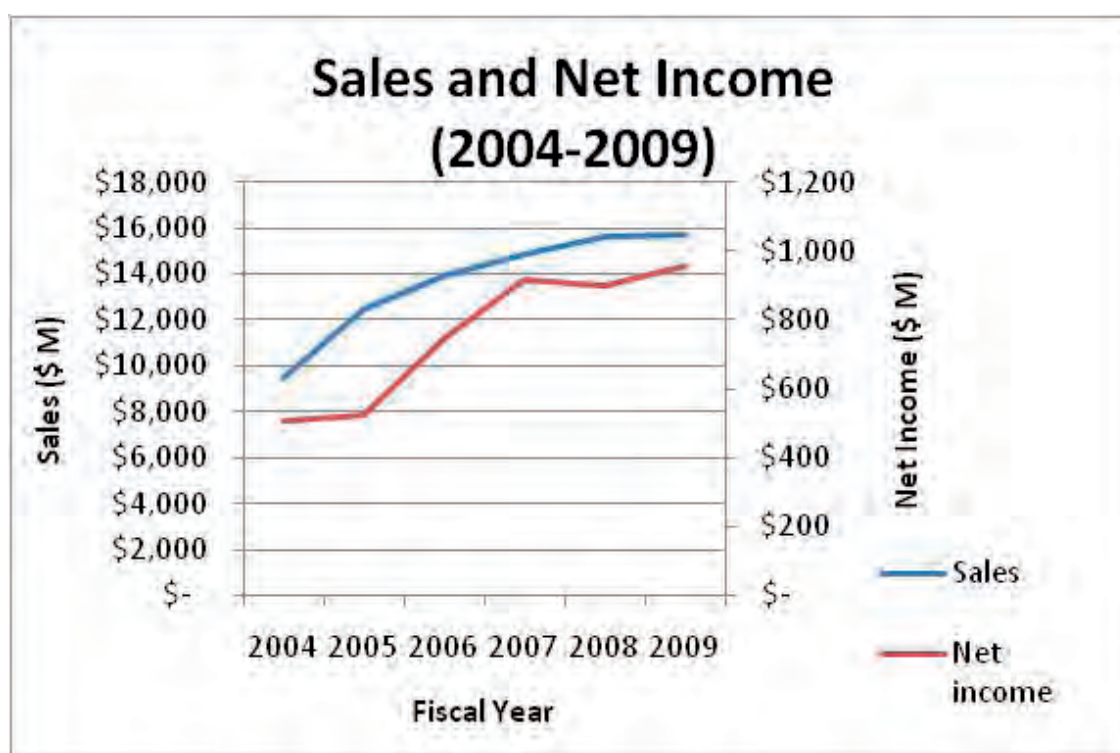
SAIC Inc. does not have any ratios to highlight in this section.



### L3 Communications Holdings Inc.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 9,445	\$ 12,477	\$ 13,961	\$ 14,901	\$ 15,615	\$ 15,680
Percent change in sales each year		32.1%	11.9%	6.7%	4.8%	0.4%
Net Income	\$ 509	\$ 526	\$ 745	\$ 918	\$ 901	\$ 955
Percent change in net income each year		3.5%	41.6%	23.2%	-1.9%	6.0%

**Table 41. L3 Communications Holdings, 2004-2009 Sales and Net Income**

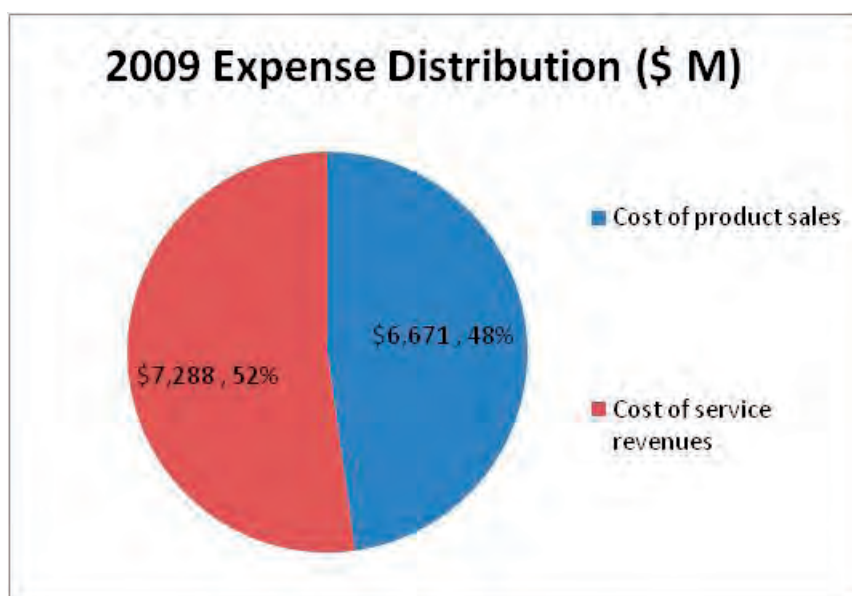


**Figure 29. L3 Communications Holdings, 2004-2009 Sales and Net Income**

L3 Communications Holdings Inc. has experienced growth in sales, though the trend has been decreasing progressively over the past five years. Net income follows the same pattern.

2009 Expense Distribution (\$ M)	
Cost of product sales	\$6,671
Cost of service revenues	\$7,288

**Table 42. L3 Communications Holdings Inc. 2009 Expense Distribution**

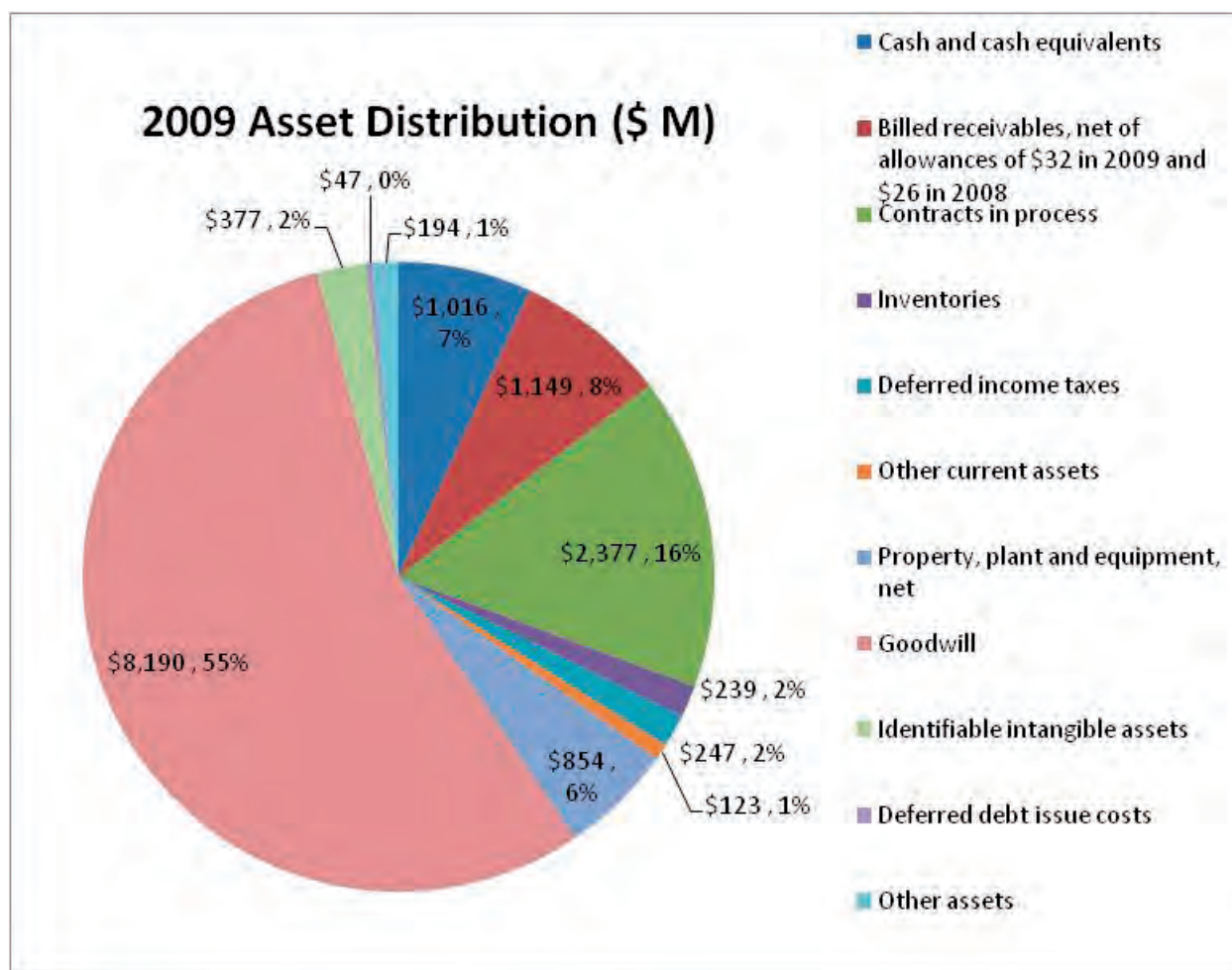


**Figure 30. L3 Communications Holdings Inc. 2009 Expense Distribution**

The corporation chose not to break out general and administrative (G&A) costs for running the organization. The expense distribution indicates the company is evenly balance between products and services.

2009 Asset Distribution (\$ M)	
Cash and cash equivalents	\$1,016
Billed receivables, net of allowances of \$32 in 2009 and \$26 in 2008	\$1,149
Contracts in process	\$2,377
Inventories	\$239
Deferred income taxes	\$247
Other current assets	\$123
Property, plant and equipment, net	\$854
Goodwill	\$8,190
Identifiable intangible assets	\$377
Deferred debt issue costs	\$47
Other assets	\$194

**Table 43. L3 Communications Holdings Inc. 2009 Asset Distribution**

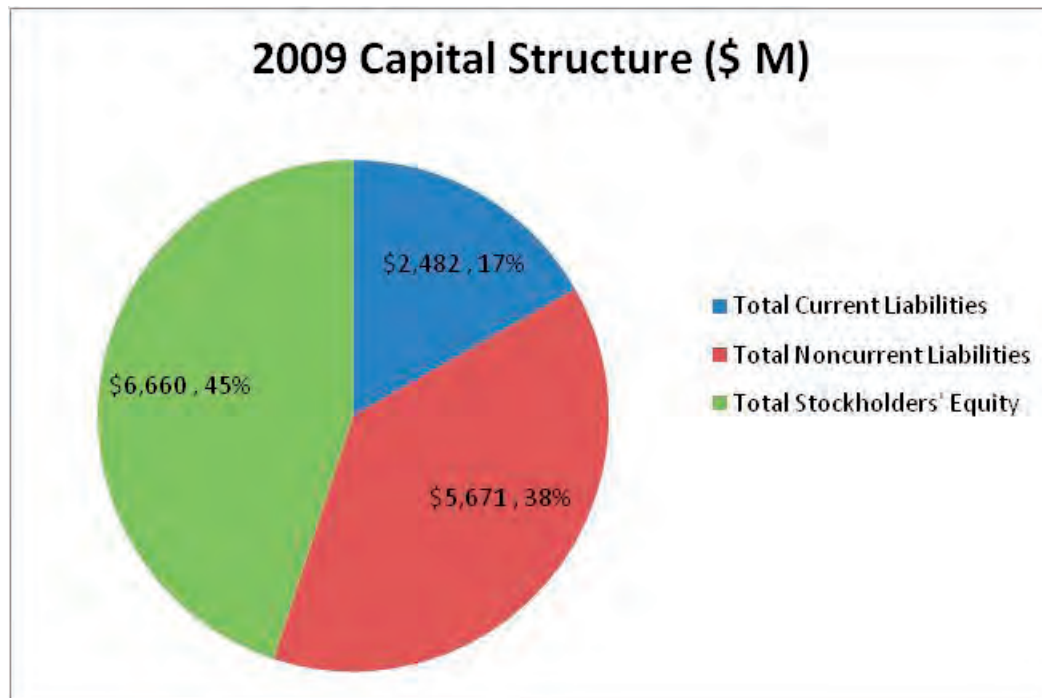


**Figure 31. L3 Communications Holdings Inc. 2009 Asset Distribution**

At 55 percent, L3 Communications has the largest percentage of goodwill of the top 10 defense contractors. L3 has a significant level of cash and future revenue, with 33 percent of its assets in cash, receivables, contracts and inventories.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$2,482
Total Noncurrent Liabilities	\$5,671
Total Stockholders' Equity	\$6,660

**Table 44. L3 Communications Holdings Inc. 2009 Capital Structure Distribution**



**Figure 32. L3 Communications Holdings Inc. 2009 Capital Structure Distribution**

The corporation's capital structure appears relatively balanced.

#### Financial Ratios

Ratio	2009	2008
Current Ratio	2.08	1.83
Total Asset Turnover	1.05	1.03
Debt Ratio	0.55	0.59
Times Interest Earned	6.00	5.91
Gross Profit Margin	10.61%	11.31%
Operating Profit Margin	10.61%	11.31%
Net Profit Margin	5.72%	6.23%
Earnings Per Share (EPS)	\$7.61	\$7.59
Return on Assets (ROA)	6.03%	6.41%
Return on Equity (ROE)	13.41%	15.64%
Price/Earnings (P/E) Ratio	11.43	9.72
Market to Book (M/B) Ratio	1.53	1.52

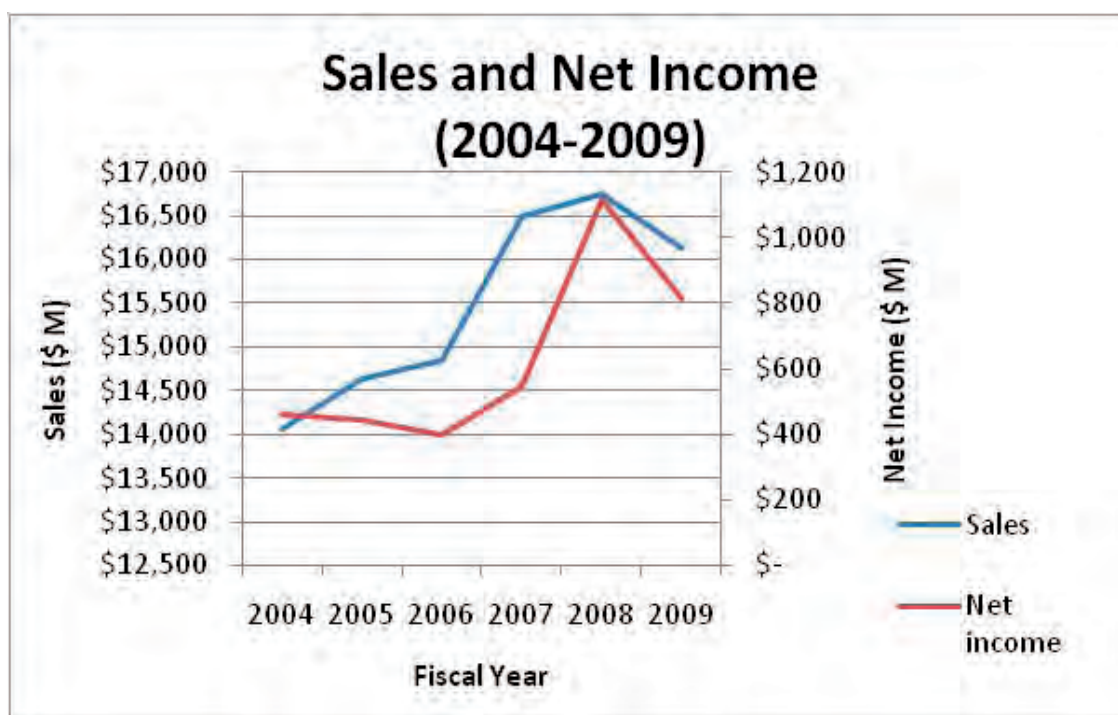
**Table 45. L3 Communications Holdings Inc. 2008 and 2009 Financial Ratios**

L3 Communications Holdings, Inc. does not have any ratios to highlight in this section.

## Computer Sciences Corp.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 14,061	\$ 14,645	\$ 14,855	\$ 16,500	\$ 16,740	\$ 16,128
Percent change in sales each year		4.2%	1.4%	11.1%	1.5%	-3.7%
Net Income	\$ 463	\$ 442	\$ 397	\$ 545	\$ 1,115	\$ 817
Percent change in net income each year		-4.5%	-10.2%	37.2%	104.6%	-26.7%

**Table 46. Computer Sciences Corp. 2004-2009 Sales and Net Income**

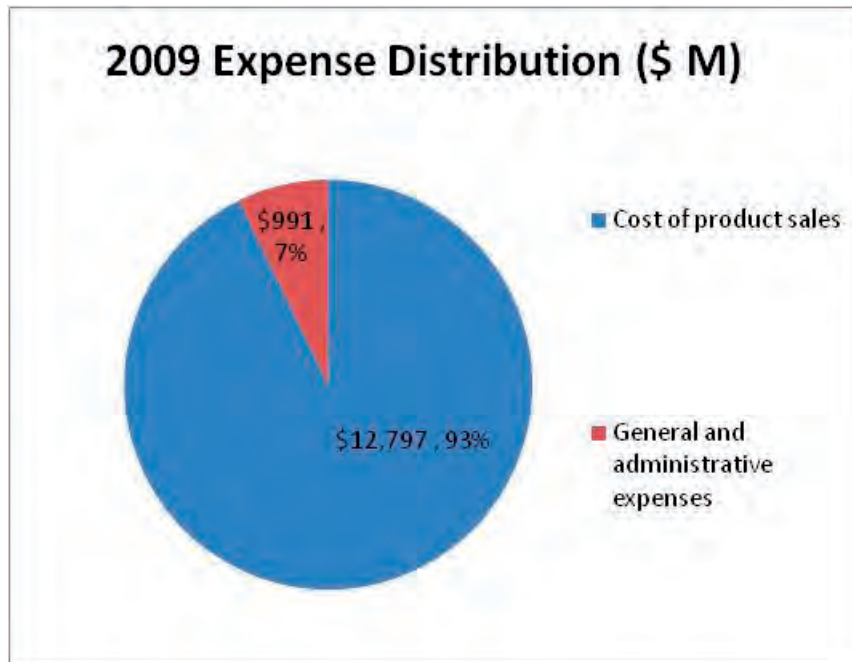


**Figure 33. Computer Sciences Corp. 2004-2009 Sales and Net Income**

2009 Expense Distribution (\$ M)	
Cost of product sales	\$12,797
General and administrative expenses	\$991

**Table 47. Computer Sciences Corp. 2009 Expense Distribution**

Computer Sciences Corp. experienced a sharp decline in sales and net income in 2009. The fluctuations in net income require additional research beyond this paper.



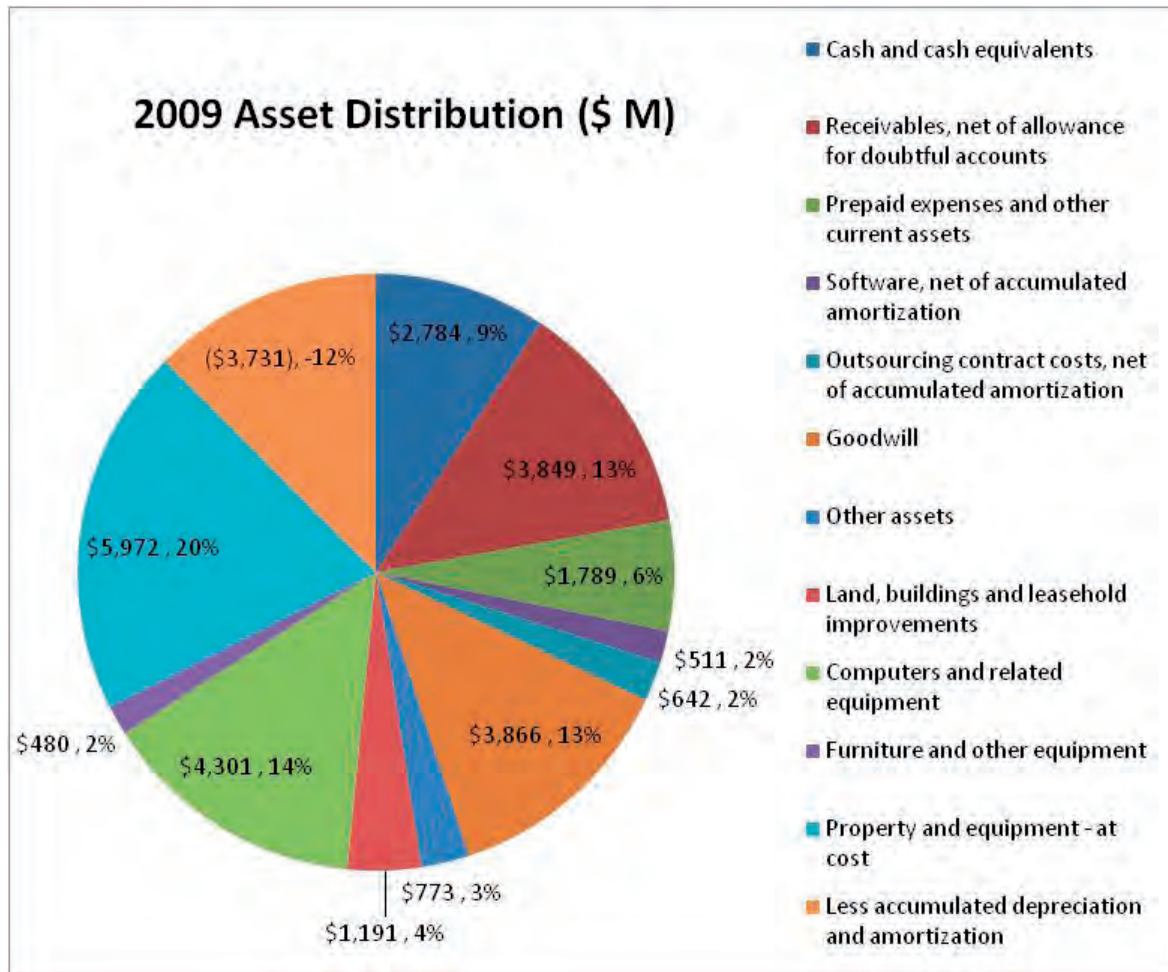
**Figure 34. Computer Sciences Corp. 2009 Expense Distribution.**

Computer Sciences Corp.'s primary business is providing services to the DoD. A clear distribution between services and products is not apparent based on the data.

2009 Asset Distribution (\$ M)	
Cash and cash equivalents	\$2,784
Receivables, net of allowance for doubtful accounts	\$3,849
Prepaid expenses and other current assets	\$1,789
Software, net of accumulated amortization	\$511
Outsourcing contract costs, net of accumulated amortization	\$642
Goodwill	\$3,866
Other assets	\$773
Land, buildings and leasehold improvements	\$1,191
Computers and related equipment	\$4,301
Furniture and other equipment	\$480
Property and equipment - at cost	\$5,972
Less accumulated depreciation and amortization	(\$3,731)
Property and equipment, net	\$2,241

**Table 48. Computer Sciences Corp. 2009 Asset Distribution**



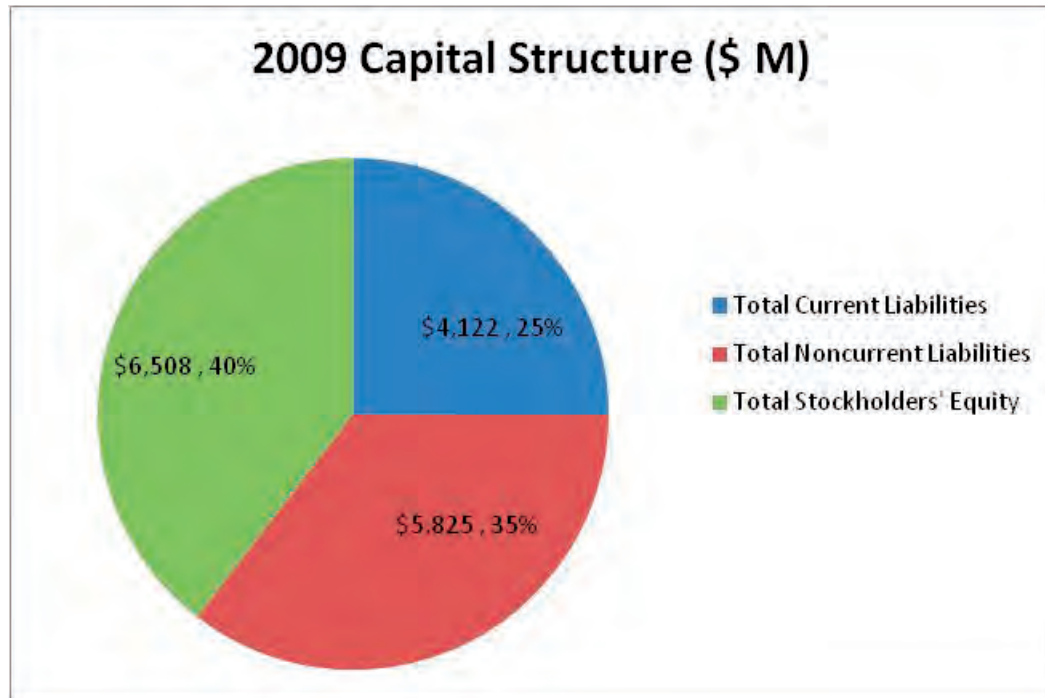


**Figure 35. Computer Sciences Corp. 2009 Asset Distribution**

Computer Sciences Corp. has 26 percent of its assets in cash, receivables, and inventories. Goodwill consists of 13 percent of the total assets. Property, plant and equipment makes up approximately half of the corporation's total assets.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$4,122
Total Noncurrent Liabilities	\$5,825
Total Stockholders' Equity	\$6,508

**Table 49. Computer Sciences Corp. 2009 Capital Structure Distribution**



**Figure 36. Computer Sciences Corp. 2009 Capital Structure Distribution**

The corporation's capital structure appears relatively balanced.

#### Financial Ratios

Ratio	2009	2008
Current Ratio	2.04	1.92
Total Asset Turnover	0.98	1.07
Debt Ratio	0.60	0.64
Times Interest Earned	4.93	4.63
Gross Profit Margin	20.65%	20.74%
Operating Profit Margin	7.71%	7.19%
Net Profit Margin	5.07%	6.66%
Earnings Per Share (EPS)	\$5.28	\$7.31
Return on Assets (ROA)	4.97%	7.14%
Return on Equity (ROE)	12.55%	19.85%
Price/Earnings (P/E) Ratio	10.90	4.81
Market to Book (M/B) Ratio	1.37	0.95

**Table 50. Computer Sciences Corp. 2008 and 2009 Financial Ratios**

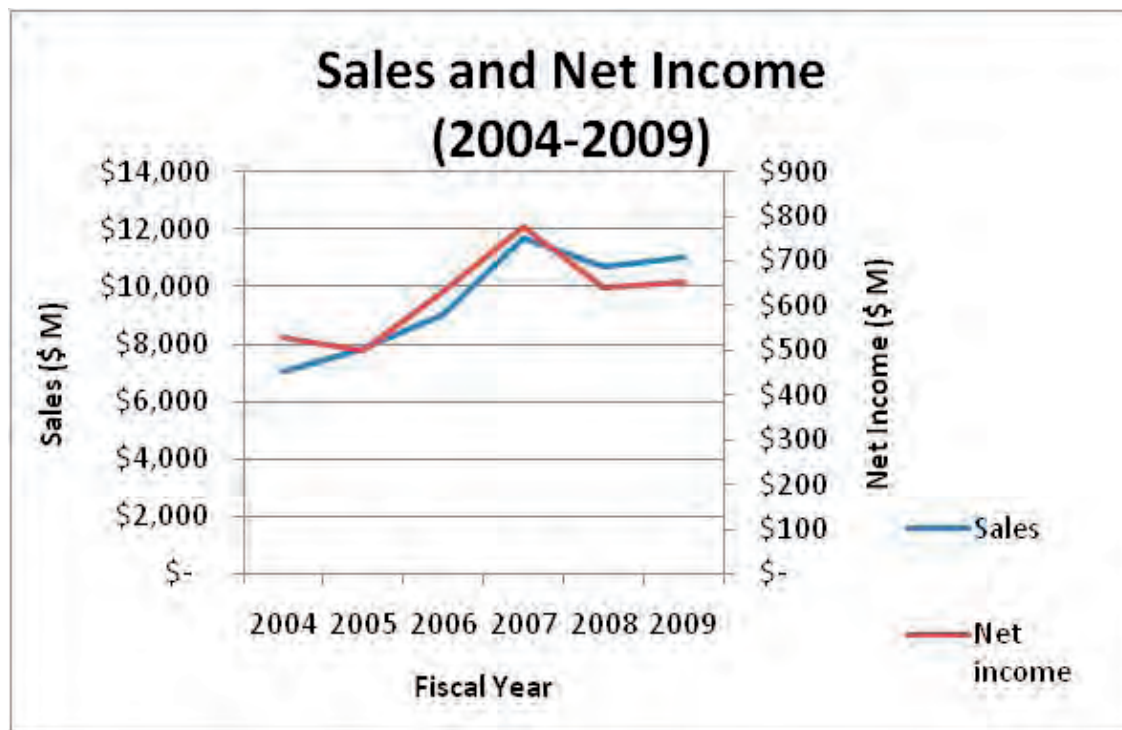
Computer Sciences Corp. does not have any ratios to highlight in this section.



## ITT Corp.

	----- Fiscal Years -----					
	2004	2005	2006	2007	2008	2009
Sales	\$ 7,041	\$ 7,808	\$ 9,003	\$ 11,695	\$ 10,674	\$ 10,995
Percent change in sales each year		10.9%	15.3%	29.9%	-8.7%	3.0%
Net Income	\$ 529	\$ 500	\$ 633	\$ 775	\$ 641	\$ 654
Percent change in net income each year		-5.5%	26.7%	22.5%	-17.3%	2.0%

**Table 51. ITT Corp. 2004-2009 Sales and Net Income**

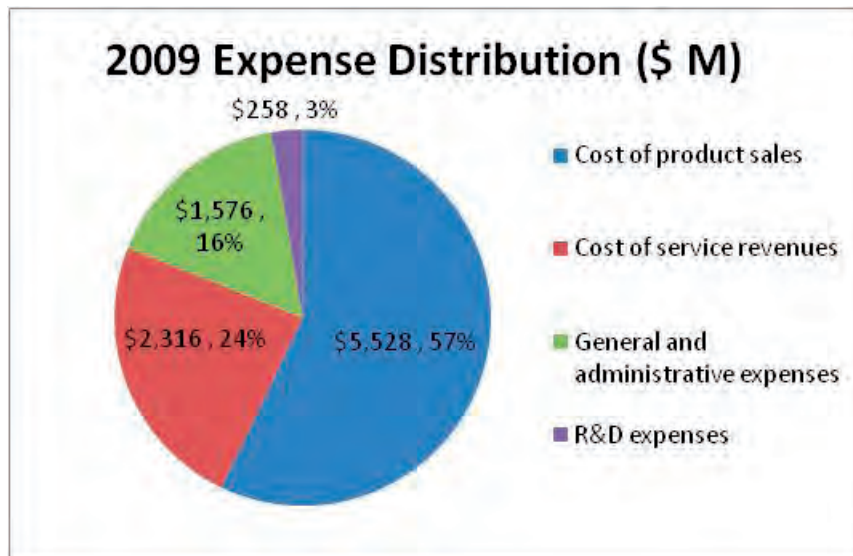


**Figure 37. ITT Corp. 2004-2009 Sales and Net Income**

ITT Corp. has had a steady growth rate in both sales and net income. They experienced a higher growth in 2007 which lead to a drop-off in 2008.

2009 Expense Distribution (\$ M)	
Cost of product sales	\$5,528
Cost of service revenues	\$2,316
General and administrative expenses	\$1,576
R&D Expense	\$258

**Table 52. ITT Corp. 2009 Expense Distribution**

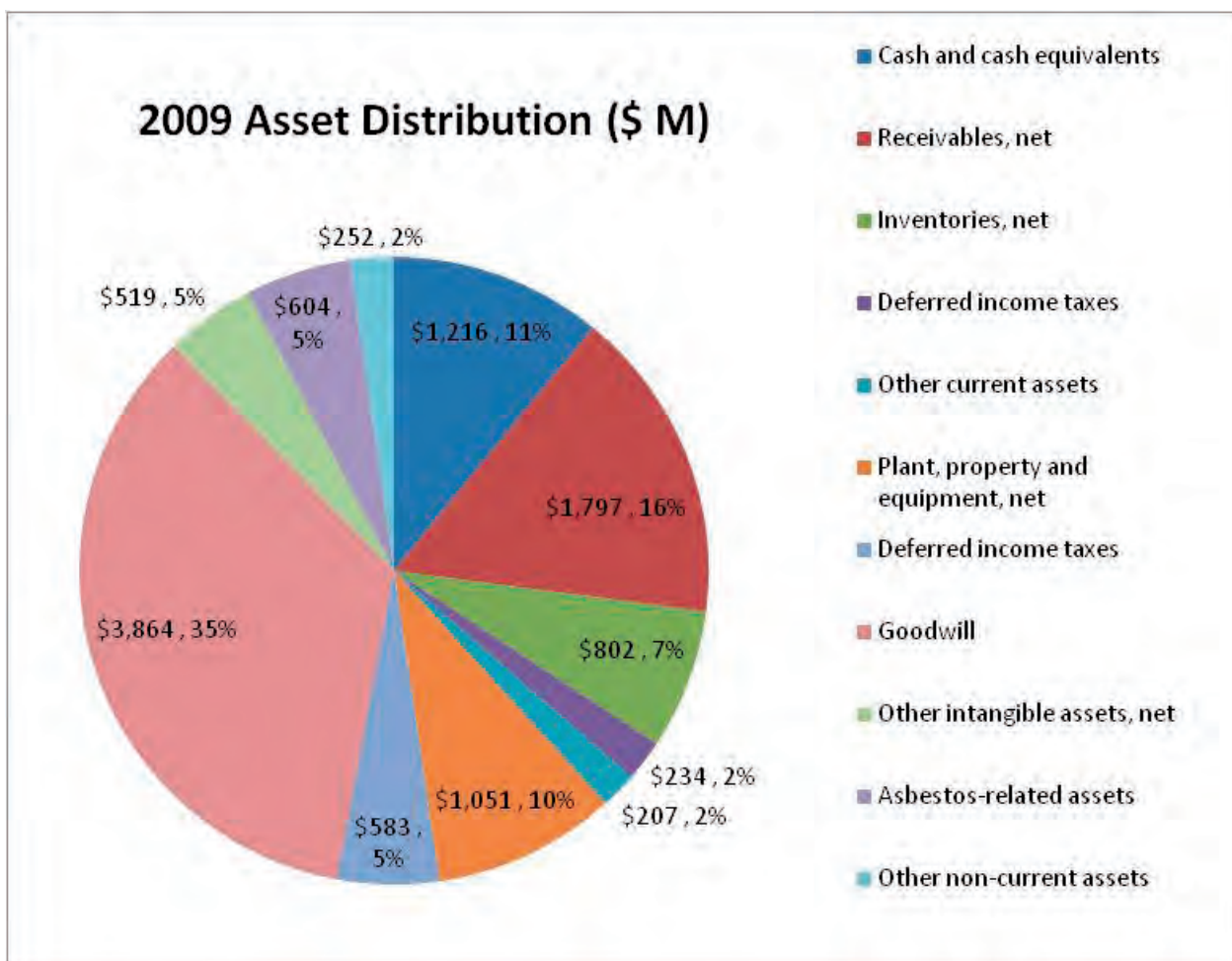


**Figure 38. ITT Corporation 2009 Expense Distribution**

What stands out with ITT Corp. is its high G&A expense. Based on the data reported in the annual statements, ITT has the highest G&A cost. Most of the contractors evaluated have G&A expense of 7 percent or lower.

2009 Asset Distribution (\$ M)	
Cash and cash equivalents	\$1,216
Receivables, net	\$1,797
Inventories, net	\$802
Deferred income taxes	\$234
Other current assets	\$207
Plant, property and equipment, net	\$1,051
Deferred income taxes	\$583
Goodwill	\$3,864
Other intangible assets, net	\$519
Asbestos-related assets	\$604
Other non-current assets	\$252

**Table 53. ITT Corp. 2009 Asset Distribution**

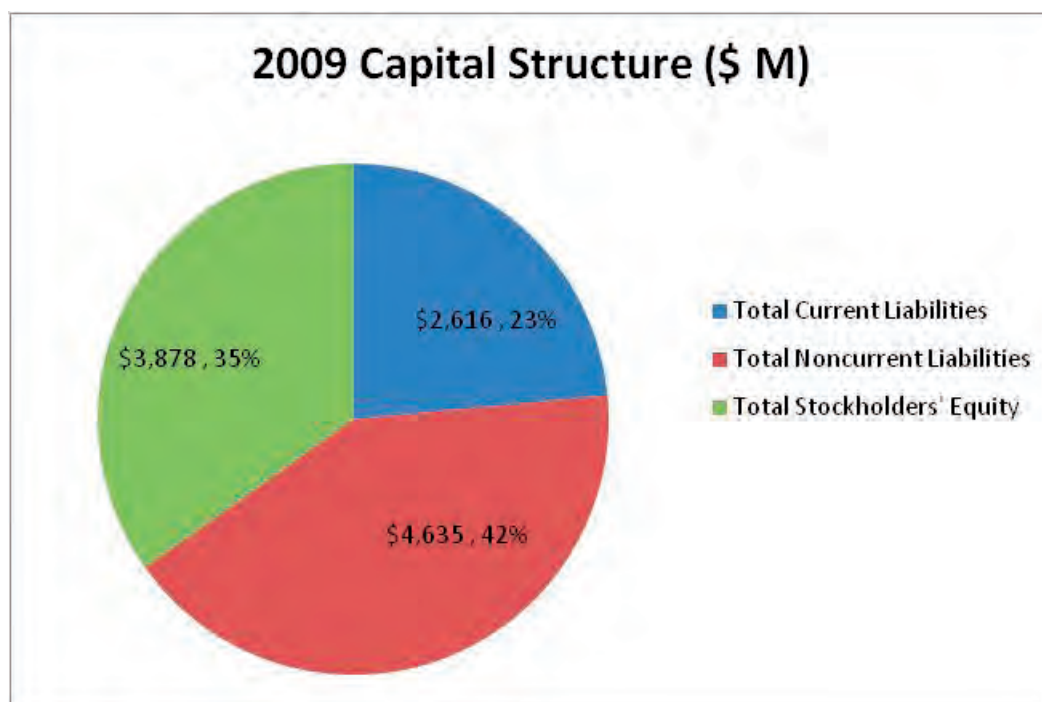


**Figure 39. ITT Corp. 2009 Asset Distribution**

ITT Corp. has approximately one-third of its assets in cash, receivables, and inventories. Their balance sheet identifies another third in the form of Goodwill. Property, plant and equipment are the next largest segment at 10 percent.

2009 Capital Structure (\$ M)	
Total Current Liabilities	\$2,616
Total Noncurrent Liabilities	\$4,635
Total Stockholders' Equity	\$3,878

**Table 54. ITT Corp. 2009 Capital Structure Distribution**



**Figure 40. ITT Corp. 2009 Capital Structure Distribution**

The noncurrent liabilities appear to be high for ITT Corporation. The balance sheet identifies retirement benefits and long-term debt as the majority of this liability. The distribution appears balanced, but the analysts should watch the liability in the future.

### Financial Ratios

Ratio	2009	2008
Current Ratio	1.63	1.01
Total Asset Turnover	0.98	1.12
Debt Ratio	0.65	0.71
Times Interest Earned	9.14	8.59
Gross Profit Margin	28.07%	27.84%
Operating Profit Margin	8.34%	10.35%
Net Profit Margin	5.90%	6.80%
Earnings Per Share (EPS)	\$3.50	\$4.32
Return on Assets (ROA)	5.78%	7.58%
Return on Equity (ROE)	16.60%	25.97%
Price/Earnings (P/E) Ratio	13.92	10.65
Market to Book (M/B) Ratio	2.31	2.77

**Table 55. ITT Corp. 2008 and 2009 Financial Ratios**

ITT Corp. does not have any ratios to highlight in this section.

### Growth Rates

Growth rates provide a picture of a company's performance over time vice a snapshot at the end of their fiscal year using ratios. Table 56 contains the calculated growth for each contractor and allows for comparisons. In an ideal world, the contractors would have double-digit values in each cell. The growth is significant for an industry with expectations of stability and low returns.

Company	ROIC		Equity Growth			Sales Growth			EPS Growth		
	Period (Years)		Period (Years)			Period (Years)			Period (Years)		
	5	1	10	5	1	10	5	1	10	5	1
Lockheed Martin	10.9%	13.6%	-3.0%	-7.1%	51.9%	7.0%	4.9%	5.8%		22.4%	-1.0%
Northrop Grumman	4.5%	8.8%	3.5%	-0.8%	12.7%	11.5%	3.0%	3.0%	11.3%	12.0%	39.0%
Boeing	10.1%	10.7%	-13.3%	-22.9%	33.3%	1.1%	3.7%	-5.8%	3.0%	6.9%	
Raytheon	9.3%	10.2%	-0.8%	2.2%	2.9%	5.2%	6.4%	1.2%	59.9%	19.3%	-2.0%
General Dynamics	13.0%	12.5%	13.7%	12.0%	11.1%	11.6%	9.1%	1.5%	12.7%	13.8%	9.8%
KBR	9.9%	12.9%	NA	19.0%	12.5%	NA	0.2%	4.9%	NA	NA	-2.2%
SAIC	12.0%	15.4%	NA	-28.4%	-40.5%	NA	9.4%	7.7%	NA	12.1%	14.8%
L3	7.1%	7.8%	16.2%	9.9%	5.0%	23.5%		0.4%	21.1%	14.5%	8.4%
CSC	6.9%	7.0%	9.1%	4.3%	15.1%	4.9%	2.8%	-3.7%	16.2%	17.0%	
ITT	9.7%	7.2%	13.7%	10.7%	15.8%	10.0%	9.3%	3.0%	12.8%	4.7%	1.1%

Notes: \* Estimated Values based on missing information

**Table 56. Top Ten 2009 Defense Contractors Growth Rates**

The ROIC values show that the companies are effectively using financing. With a few exceptions, the contractors are near or obtaining double digit returns for both the one- and five- year periods. Deviations in the equity growth (i.e the large positive and negative growth) illustrates major swings based on financial decisions.

To simplify this concept, consider equity as the amount of tangible assets divided by the number of stock shares. Therefore, tangible assets and number of shares owned drive the rate calculation. Assuming the number of shares is stable, tangible assets are the major factor in this growth. Therefore, the companies that are doing well are in possession of more cash, receivables, inventories, property, plants and equipment. This is a primary reason fixed-price production contracts are the best way for the companies to control their risk and gain profit. Generally, the contractors own everything related to the production contract vice a cost-plus development contract where items are purchased on behalf of the government. The production process can accumulate assets that appear as inventories, property, plants and equipment.

Sales growth follows what is probably the expected upward trend with the Global War on Terror occurring over roughly the past decade. The recent cutbacks and efficiency initiatives show in the declining growth in the five- and one-year periods. Sales growth is a challenging metric for the defense contractors since the DoD market is finite with limited new business. Many companies gain growth through acquisitions and mergers. The last growth factor is EPS. This is a simple measure in how well the company is growing their shareholders' equity. The values indicate the companies have been doing quite well for their shareholders for the past decade despite the recession. There are signs of the impact from the reduction in defense spending, with four contractors having negative growth for the last one-year period.

### **Discussion of Financial Analysis**

Growth rate calculations in the previous section provide valuable insight into the health of the defense contractors. There also is a direct comparison of the different contractors. Below, this comparison continues with contractors' calculated ratios and current 2011 ratios for four major industries.

	Lockheed Martin	Northrop Grumman	Boeing	Raytheon	General Dynamics	Industry Average
Ratio						
Current Ratio	1.17	1.24	1.07	1.42	1.28	1.54
Total Asset Turnover	1.29	1.12	1.10	1.05	1.03	1.29
Debt Ratio	0.88	0.58	0.96	0.58	0.60	0.80
Times Interest Earned	15.05	7.29	6.11	24.73	22.97	60.53
Gross Profit Margin	9.35%	7.36%	17.20%	12.23%	11.49%	13.5%
Operating Profit Margin	9.88%	7.36%	3.07%	7.95%	11.49%	7.9%
Net Profit Margin	6.69%	5.0%	2.75%	7.78%	7.49%	4.8%
Earnings Per Share (EPS)	\$ 7.78	\$4.87	\$1.87	\$4.89	\$6.21	\$4.50
Return on Assets (ROA)	8.61%	5.57%	2.11%	8.20%	7.70%	6.38%
Return on Equity (ROE)	73.24%	13.29%	58.97%	19.69%	19.27%	26.13%
Price/Earnings (P/E) Ratio	9.69	11.48	28.95	10.44	10.98	13.36
Market to Book (M/B) Ratio	7.10	1.42	17.17	2.06	2.12	3.97

**Table 57. Aggregate 2009 Financial Ratios for the Top-Ten Defense Contractors**

	KBR	SAIC	L-3	CSC	ITT	Industry Average
Ratio						
Current Ratio	1.59	1.87	2.08	2.04	1.63	1.54
Total Asset Turnover	2.27	2.05	1.05	0.98	0.98	1.29
Debt Ratio	0.57	0.57	0.55	0.60	0.65	0.80
Times Interest Earned	536.00	11.43	6.00	4.93	9.14	60.53
Gross Profit Margin	4.43%	13.86%	10.61%	20.65%	28.07%	13.5%
Operating Profit Margin	4.43%	7.99%	10.61%	7.71%	8.34%	7.9%
Net Profit Margin	2.40%	4.58%	5.72%	5.07%	5.90%	4.8%
Earnings Per Share (EPS)	\$1.80	\$1.24	\$7.61	\$5.28	\$3.50	\$4.50
Return on Assets (ROA)	5.44%	9.39%	6.03%	4.97%	5.78%	6.38%
Return on Equity (ROE)	12.63%	21.69%	13.41%	12.55%	16.60%	26.13%
Price/Earnings (P/E) Ratio	10.55	15.27	11.43	10.90	13.92	13.36
Market to Book (M/B) Ratio	1.33	3.33	1.53	1.37	2.31	3.97

**Table 58. Aggregate 2009 Financial Ratios for the Top-Ten Defense Contractors (Continued)**

For the most part, the contractors are performing on par with each other based on the ratio analysis. The average column was calculated using the data of the top 10 defense contractors for each ratio. There are a few items to highlight in analyzing the contractor data. In looking at the differences between gross and operating profit margin, the companies with a large delta may have significant overhead costs.



KBR, as an example of cost reimbursable or service-type contracts, shows the net profit margin that one should probably expect from this type of business. Not many expenses can offset the corporate tax. Corporations are taxed up to 35 percent of their earnings. From an industry perspective; contract fee, as the only source of net income, is undesirable. This fee is then reduced by interest paid on debt, unallowable expenses and taxes. A government concern should be relative to increasing fee for companies that are not effective or efficient. The companies that are effective and efficient should be rewarded since this will ultimately lead to reduced cost to the government.

Lastly, the market to book ratio can provide an indicator of how investors see the company. Generally, a higher value demonstrates that investors are willing to pay more for shares of the company stock. There is another way the government can view this metric. If the value becomes too high, investors may stop buying stock. This can lead to financial trouble for the company which can translate to issues for the government.

Ratio	Aerospace/Defense Industry	Telecom Services - Domestic Industry	Drug Manufacturers Industry	Electric Utilities Industry
Current Ratio	1.60	0.80	1.80	1.30
Debt Ratio	1.58	0.94	0.81	1.38
Gross Profit Margin	20.70%	56.60%	70.10%	25.70%
Operating Profit Margin (Pre-tax)	9.50%	14.20%	17.40%	8.30%
Net Profit Margin	6.80%	13.0%	14.70%	8.80%
Return on Assets (ROA)	6.30%	5.80%	8.10%	2.50%
Return on Equity (ROE)	50.00%	12.30%	26.00%	9.40%
Price/Earnings (P/E) Ratio	16.70	19.20	25.80	14.60
Market to Book (M/B) Ratio	7.09	1.78	3.74	1.64

**Table 59. 2011 Current Financial Ratios from Comparable Industries,  
Source: *MSN Money*, 2011**

Many comparisons are made between the defense industry and other major industries, particularly during discussions involving the government and industry. Table 59 provides some current (1<sup>st</sup> Quarter, 2011) industry ratios. Most comparisons highlight the smaller net profit margin of the defense industry. Analysts should also consider the gross profit margin. The other industries are generating significantly more revenue than it costs to produce the products or services. Thus if a contractor is losing profit, one needs to determine if the government needs to pay more for the product or the contractor needs to reduce the cost of producing the items.

Based on the financial analysis of the defense contractors, two concerns become visible. First, many of the companies have significant assets associated with goodwill. Goodwill, generally, only



shows on the balance sheet when it has been purchased (McMullen, 1979). It primarily represents an acquisition and merger that the company has executed. This line item represents the intangible value of the acquired company. The concern is that the larger corporations are purchasing smaller firms in an attempt to grow. This process limits competition and can lead to adverse financial effects for the acquiring company (e.g. the smaller firm is no longer profitable under the larger corporation overhead structure.) Since these companies are mainly defense funded, the negative financial impacts could be transferred to the government. Second, several companies have very limited shareholder equity in their balance sheets. These can be indications that companies may be over-leveraging. The downturn of the American automotive industry in the late 2000s demonstrates the negative outcomes of this issue.

Contract type can deliver significantly different results when it comes to contractor profit margin. Even the highest fee on a cost-plus contract will not have the double-digit margin that the contractors are striving to achieve. That does not mean that incentives and processes developed during early acquisition phases cannot affect the typical fixed-price production contracts. The government needs to take different strategies with each contract type and acquisition phase. Other considerations include the need for the government to control changing quantities and program direction which introduce challenges for the contractor. The single-year with option year government contracting approach makes long-term industry investment risky. Addressing this requires close coordination between the executive and legislative branches of the government.

Of the various metrics calculated in the financial analysis, the growth rates may provide the most information to the government. These show interrelated factors relative to the health of the company. They also provide a temporal view of the contractor data vice snapshots of a given period. Since profit seems to drive the discussions, the profitability ratios provide significant insight into the contractor financial performance.

Information is available for the government to gain a better understanding of the financial aspects of defense contracting. The government and contractors can use this information to generate better dialogue between the parties. Relative to the research question, fee by itself is not a good metric for determining contractor profit. Contractors are able to influence other parameters to affect profit. The fixed-priced contracts provide the biggest opportunity for the contractor to gain profit since both fee and productivity improvements are combined factors.

## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATIONS**

This paper set out to determine if fee is a good measure of contractor profit. After investigating net profit margin, most of the contractors are gaining more than just the fee when taking taxes and interest into consideration. However, defense contractors are generating a smaller margin than other large industries. Fee, alone, is not a good measure of profit and profit has a direct relationship to the type of contract. For instance, contractors are more likely to be able to control profit under fixed-price production contracts than cost-plus development contracts.

It is not the government's responsibility to make profit for contractors. Its objective is to get products and services to the warfighter. They are also responsible for pursuing the best overall cost for providing these products and services. This does not directly translate to negotiating the smallest fee the contractor is willing to accept. A better understanding of business finance management can help the government improve negotiations with industry. It is feasible that the DoD can gain a lower overall cost with an increased fee. For example, increases in productivity can lead to a higher fee and a lower overall contract cost. A caution is to not blindly use the contract incentive options. There are many factors that the contractor has to increase productivity, but the government needs some managerial and technical confidence in the proposals.

There is a common saying: "If you want the story; follow the money." The government can learn a lot from analyzing company's financial statements. It is true that it is not the government's responsibility to ensure contractor profit, but both sides may be able to gain mutually when the contractor is profitable. The DoD can strive to put mechanisms in contracts that allow for profit with a "win-win" outcome for both parties.

Both the government and contractor need to be open to ideas. The government cannot manage corporations nor should it interfere with their operations. But it is imperative that the government understand if the contractors are making sound business decisions. The financial trends can help DoD predict shortfalls or upcoming issues relative to the defense contractors.

Based on the financial analysis conducted, the DoD should be concerned about corporate acquisitions and their potential long-term negative impact. With reduced DoD budgets, acquisitions and mergers may be enticing to show growth. Finally, overleveraging by the contractor is likely to lead to major issues for both the contractor and the DoD.

Based on the research conducted in this paper, the following recommendations propose additional research and contracting approach development as continued activities:

1. The industry perspective can provide valuable insight regarding the topic of this paper. How does industry recommend that the government handle profitability that has mutual benefit?
2. The DoD should investigate corporate acquisition and mergers and the potential impact on future contract actions.

3. Researchers or analysts should conduct a more in-depth study of the defense contractor's capital structure. Are they facing over-leveraging and what are the potential impacts to both the corporation and the government?
4. The government should work with industry to develop cost-plus and fixed-price contract strategies. These strategies should be tailored to the specific development, production or service effort.
5. The government should include financial analysis to aid in fee negotiation with both technical and managerial factors in consideration.

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## **GLOSSARY OF ACRONYMS AND TERMS**

CSC	Computer Science Corporation
DAU	Defense Acquisition University
DoD	Department of Defense
EPS	Earnings per Share
IDIQ	Indefinite Delivery Indefinite Quantity
SAIC	Science Applications International Corporation
T&M	Time and Material

## APPENDIX A:

### Lockheed Martin Corp. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
Net Sales			
Products	\$36,336	\$34,809	\$35,267
Services	8,853	7,922	6,595
Sales Revenue, Net, Total	45,189	42,731	41,862
Cost of Sales			
Products	(32,301)	(30,874)	(31,479)
Services	(7,993)	(7,147)	(5,874)
Unallocated Corporate Costs	(671)	(61)	(275)
Cost of Goods and Services Sold	(40,965)	(38,082)	(37,628)
Gross Profit, Total	4,224	4,649	4,234
Other Income (Expense), Net	242	482	293
Operating Profit	4,466	5,131	4,527
Interest Expense	(305)	(341)	(352)
Other Non-operating Income (Expense), Net	123	(88)	193
Earnings Before Income Taxes	4,284	4,702	4,368
Income Tax Expense	(1,260)	(1,485)	(1,335)
Net Earnings	\$3,024	\$3,217	\$3,033
Earnings Per Common Share			
Basic	\$7.86	\$8.05	\$7.29
Diluted	\$7.78	\$7.86	\$7.1

## Lockheed Martin Corp. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>Current Assets</b>		
Cash and Cash Equivalents	\$2,391	\$2,168
Receivables	6,061	5,296
Inventories	2,183	1,902
Deferred Income Taxes	815	755
Other Current Assets	1,027	562
<b>Total Current Assets</b>	<b>12,477</b>	<b>10,683</b>
Property, Plant, and Equipment, Net	4,520	4,488
Goodwill	9,948	9,526
Purchased Intangibles, Net	311	355
Prepaid Pension Asset	160	122
Deferred Income Taxes	3,779	4,651
Other Assets	3,916	3,614
<b>Assets, Total</b>	<b>35,111</b>	<b>33,439</b>
<b>Current Liabilities</b>		
Accounts Payable	2,030	2,030
Customer Advances and Amounts in Excess of Costs Incurred	5,049	4,535
Salaries, Benefits and Payroll Taxes	1,648	1,684
Current Maturities of Long-term Debt	0	242
Other Current Liabilities	1,976	2,051
<b>Total Current Liabilities</b>	<b>10,703</b>	<b>10,542</b>
Long-term Debt, Net	5,052	3,563
Accrued Pension Liabilities	10,823	12,004
Other Postretirement Benefit Liabilities	1,308	1,386
Other Liabilities	3,096	3,079
<b>Total Liabilities</b>	<b>30,982</b>	<b>30,574</b>
<b>Stockholders' Equity</b>		
Common Stock, \$1 Par Value Per Share	373	393
Additional Paid-in Capital	0	0
Retained Earnings	12,351	11,621
Accumulated Other Comprehensive Income (Loss)	(8,595)	(9,149)
<b>Total Stockholders' Equity</b>	<b>4,129</b>	<b>2,865</b>
<b>Liabilities and Stockholders' Equity, Total</b>	<b>\$35,111</b>	<b>\$33,439</b>



## Northrop Grumman Corp. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
<b>Sales and Service Revenues</b>			
Product sales	\$20,914	\$19,634	\$18,577
Service revenues	12,841	12,681	11,764
Total sales and service revenues	33,755	32,315	30,341
<b>Cost of Sales and Service Revenues</b>			
Cost of product sales	16,591	15,490	14,340
Cost of service revenues	11,539	10,885	10,014
General and administrative expenses	3,142	3,143	3,062
Goodwill impairment	0	3,060	0
Operating income (loss)	2,483	(263)	2,925
<b>Other (expense) income</b>			
Interest expense	(281)	(295)	(336)
Other, net	64	38	17
Earnings (loss) from continuing operations before income taxes	2,266	(520)	2,606
Federal and foreign income taxes	693	859	855
Earnings (loss) from continuing operations	1,573	(1,379)	1,751
Earnings from discontinued operations, net of tax	113	117	39
Net earnings (loss)	1,686	(1,262)	1,790
<b>Basic Earnings (Loss) Per Share</b>			
Continuing operations	\$4.93	(\$4.12)	\$5.12
Discontinued operations	\$0.35	\$0.35	\$0.12
Basic earnings (loss) per share	\$5.28	(\$3.77)	\$5.24
Weighted-average common shares outstanding, in millions	319.2	334.5	341.7
<b>Diluted Earnings (Loss) Per Share</b>			
Continuing operations	\$4.87	(\$4.12)	\$5.01
Discontinued operations	\$0.34	\$0.35	\$0.11
Diluted earnings (loss) per share	\$5.21	(\$3.77)	\$5.12
Weighted-average diluted shares outstanding, in millions	323.3	334.5	354.3
Net earnings (loss) from above	1,686	(1,262)	1,790
<b>Other comprehensive income (loss)</b>			
Change in cumulative translation adjustment	31	(24)	12
Change in unrealized gain (loss) on marketable securities and cash flow hedges, net of tax (expense) benefit of \$(23) in 2009, \$22 in 2008 and \$(1) in 2007	36	(35)	1
Change in unamortized benefit plan costs, net of tax (expense) benefit of \$(374) in 2009, \$1,888 in 2008 and \$(384) in 2007	561	(2,884)	594
Other comprehensive income (loss), net of tax	628	(2,943)	607
Comprehensive income (loss)	\$2,314	(\$4,205)	\$2,397

## Northrop Grumman Corp. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>Current Assets</b>		
Cash and cash equivalents	\$3,275	\$1,504
Accounts receivable, net of progress payments	3,394	3,701
Inventoried costs, net of progress payments	1,170	1,003
Deferred tax assets	524	585
Prepaid expenses and other current assets	272	219
Assets of discontinued operations	<u>0</u>	<u>1,231</u>
Total current assets	<u>8,635</u>	<u>8,243</u>
<b>Property, Plant, and Equipment</b>		
Land and land improvements	649	619
Buildings and improvements	2,422	2,326
Machinery and other equipment	4,759	4,547
Capitalized software costs	624	530
Leasehold improvements	<u>630</u>	<u>545</u>
Property, plant and equipment, gross	9,084	8,567
Accumulated depreciation	<u>(4,216)</u>	<u>(3,782)</u>
Property, plant, and equipment, net	<u>4,868</u>	<u>4,785</u>
<b>Other Assets</b>		
Goodwill	13,517	13,509
Other purchased intangibles, net of accumulated amortization of \$1,871 in 2009 and \$1,767 in 2008	873	947
Pension and post-retirement plan assets	300	290
Long-term deferred tax assets	1,010	1,497
Miscellaneous other assets	<u>1,049</u>	<u>926</u>
Total other assets	<u>16,749</u>	<u>17,169</u>
Total assets	<u>30,252</u>	<u>30,197</u>
<b>Current Liabilities</b>		
Notes payable to banks	12	24
Current portion of long-term debt	91	477
Trade accounts payable	1,921	1,887
Accrued employees' compensation	1,281	1,231
Advance payments and billings in excess of costs incurred	1,954	2,028
Other current liabilities	1,726	1,637
Liabilities of discontinued operations	<u>0</u>	<u>165</u>
Total current liabilities	<u>6,985</u>	<u>7,449</u>
Long-term debt, net of current portion	4,191	3,443
Pension and post-retirement plan liabilities	4,874	5,823
Other long-term liabilities	<u>1,515</u>	<u>1,562</u>
Total liabilities	<u>17,565</u>	<u>18,277</u>
<b>Shareholders' Equity</b>		
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding; 2009 - 306,865,201; 2008 - 327,012,663	307	327
Paid-in capital	8,657	9,645

Continued on next page

### Northrop Grumman Corp. Balance Sheet (continued)

In Millions	Dec. 31, 2009	Dec. 31, 2008
Current Assets		
Retained earnings	6,737	5,590
Accumulated other comprehensive loss	(3,014)	(3,642)
Total shareholders' equity	<u>12,687</u>	<u>11,920</u>
Total liabilities and shareholders' equity	<u>\$30,252</u>	<u>\$30,197</u>

### The Boeing Co. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
Sales of products	\$57,032	\$50,180	\$57,049
Sales of services	11,249	10,729	9,338
Total revenues	<u>68,281</u>	<u>60,909</u>	<u>66,387</u>
Cost of products	(47,639)	(41,662)	(45,375)
Cost of services	(8,726)	(8,467)	(7,732)
Boeing Capital Corporation interest expense	(175)	(223)	(295)
Total costs and expenses	<u>(56,540)</u>	<u>(50,352)</u>	<u>(53,402)</u>
Gross Profit, Total	<u>11,741</u>	<u>10,557</u>	<u>12,985</u>
Income from operating investments, net	249	241	188
General and administrative expense	(3,364)	(3,084)	(3,531)
Research and development expense, net of credits of \$0, \$50 and \$130	(6,506)	(3,768)	(3,850)
(Loss)/gain on dispositions, net	(24)	4	38
Earnings from operations	<u>2,096</u>	<u>3,950</u>	<u>5,830</u>
Other (expense)/income, net	(26)	247	484
Interest and debt expense	(339)	(202)	(196)
Earnings before income taxes	<u>1,731</u>	<u>3,995</u>	<u>6,118</u>
Income tax expense	(396)	(1,341)	(2,060)
Net earnings from continuing operations	<u>1,335</u>	<u>2,654</u>	<u>4,058</u>
Net (loss)/gain on disposal of discontinued operations, net of taxes of \$13, (\$10) and (\$9)	(23)	18	16
Net earnings	<u>\$1,312</u>	<u>\$2,672</u>	<u>\$4,074</u>
Basic earnings per share from continuing operations	\$1.89	\$3.68	\$5.36
Net (loss)/gain on disposal of discontinued operations, net of taxes	(\$0.03)	\$0.02	\$0.02
Basic earnings per share	<u>\$1.86</u>	<u>\$3.7</u>	<u>\$5.38</u>
Diluted earnings per share from continuing operations	\$1.87	\$3.65	\$5.26
Net (loss)/gain on disposal of discontinued operations, net of taxes	(\$0.03)	\$0.02	\$0.02
Diluted earnings per share	<u>\$1.84</u>	<u>\$3.67</u>	<u>\$5.28</u>

## The Boeing Co. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>Assets</b>		
Cash and cash equivalents	\$9,215	\$3,268
Short-term investments	2,008	11
Accounts receivable, net	5,785	5,602
Current portion of customer financing, net	368	425
Deferred income taxes	966	1,046
Inventories, net of advances and progress billings	16,933	15,612
Total current assets	<u>35,275</u>	<u>25,964</u>
Customer financing, net	5,466	5,857
Property, plant and equipment, net	8,784	8,762
Goodwill	4,319	3,647
Other acquired intangibles, net	2,877	2,685
Deferred income taxes	3,062	4,114
Investments	1,030	1,328
Pension plan assets, net	16	16
Other assets, net of accumulated amortization of \$492 and \$400	1,224	1,406
Total assets	<u>62,053</u>	<u>53,779</u>
<b>Liabilities and shareholders' equity</b>		
Accounts payable	7,096	5,871
Other accrued liabilities	12,822	11,564
Advances and billings in excess of related costs	12,076	12,737
Income taxes payable	182	41
Short-term debt and current portion of long-term debt	707	560
Total current liabilities	<u>32,883</u>	<u>30,773</u>
Accrued retiree health care	7,049	7,322
Accrued pension plan liability, net	6,315	8,383
Non-current income taxes payable	827	1,154
Other long-term liabilities	537	337
Long-term debt	12,217	6,952
Total Liabilities	<u>59,828</u>	<u>54,921</u>
<b>Shareholders' equity:</b>		
Common shares issued, par value \$5.00 - 1,012,261,159 shares	5,061	5,061
Additional paid-in capital	3,724	3,456
Treasury shares, at cost	(15,911)	(17,758)
Retained earnings	22,746	22,675
Accumulated other comprehensive loss	(11,877)	(13,525)
ShareValue Trust shares	(1,615)	(1,203)
Total Boeing shareholders' equity	<u>2,128</u>	<u>(1,294)</u>
Noncontrolling interest	97	152
Total shareholders' equity	<u>2,225</u>	<u>(1,142)</u>
Total liabilities and shareholders' equity	<u>\$62,053</u>	<u>\$53,779</u>

## Raytheon Co. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
Net sales			
Products	\$21,761	\$20,923	\$19,455
Services	3,120	2,251	1,846
Total net sales	<u>24,881</u>	<u>23,174</u>	<u>21,301</u>
Operating expenses			
Cost of sales-products	17,071	16,570	15,431
Cost of sales-services	2,676	1,919	1,580
Administrative and selling expenses	1,527	1,548	1,434
Research and development expenses	565	517	502
Total operating expenses	<u>21,839</u>	<u>20,554</u>	<u>18,947</u>
Operating income	<u>3,042</u>	<u>2,620</u>	<u>2,354</u>
Interest expense	123	129	196
Interest income	(14)	(64)	(163)
Other expense, net	3	33	70
Non-operating expense, net	<u>112</u>	<u>98</u>	<u>103</u>
Income from continuing operations before taxes	<u>2,930</u>	<u>2,522</u>	<u>2,251</u>
Federal and foreign income taxes	953	824	532
Income from continuing operations	<u>1,977</u>	<u>1,698</u>	<u>1,719</u>
Operating (loss) income from discontinued operations, net of tax	(1)	(2)	(57)
Net gain on sales of discontinued operations, net of tax	0	0	942
(Loss) income from discontinued operations, net of tax	<u>(1)</u>	<u>(2)</u>	<u>885</u>
Net income	<u>1,976</u>	<u>1,696</u>	<u>2,604</u>
Less: Net income attributable to noncontrolling interests	41	24	26
Net income attributable to Raytheon Company	<u>\$1,935</u>	<u>\$1,672</u>	<u>\$2,578</u>
Basic earnings (loss) per share attributable to Raytheon Company common stockholders:			
Income from continuing operations	\$4.96	\$4.01	\$3.86
Income (loss) from discontinued operations	\$0	(\$0.01)	\$2.02
Net income	<u>\$4.96</u>	<u>\$4.01</u>	<u>\$5.88</u>
Diluted earnings (loss) per share attributable to Raytheon Company common stockholders:			
Income from continuing operations	\$4.89	\$3.93	\$3.78
Income (loss) from discontinued operations	\$0	(\$0.01)	\$1.97
Net income	<u>\$4.89</u>	<u>\$3.92</u>	<u>\$5.75</u>

## Raytheon Co. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>Current assets</b>		
Cash and cash equivalents	\$2,642	\$2,259
Accounts receivable, net	120	105
Contracts in process	4,373	3,793
Inventories	344	325
Current tax asset	0	441
Deferred taxes	273	395
Prepaid expenses and other current assets	116	99
<b>Total current assets</b>	<u>7,868</u>	<u>7,417</u>
Property, plant and equipment, net	2,001	2,024
Deferred taxes	436	735
Prepaid retiree benefits	111	56
Goodwill	11,922	11,662
Other assets, net	1,269	1,240
<b>Total assets</b>	<u>23,607</u>	<u>23,134</u>
<b>Current liabilities</b>		
Advance payments and billings in excess of costs incurred	2,224	1,970
Accounts payable	1,397	1,201
Accrued employee compensation	868	913
Other accrued expenses	1,034	1,065
<b>Total current liabilities</b>	<u>5,523</u>	<u>5,149</u>
Accrued retiree benefits and other long-term liabilities	5,793	6,488
Deferred taxes	23	0
Long-term debt	2,329	2,309
<b>Total liabilities</b>	<u>13,668</u>	<u>13,946</u>
<b>Raytheon Company stockholders' equity</b>		
Common stock, par value \$0.01 per share, 1,450 shares authorized, 378 and 400 shares outstanding in 2009 and 2008, respectively, after deducting 107 and 81 treasury shares in 2009 and 2008, respectively	4	4
Additional paid-in capital	10,991	10,873
Accumulated other comprehensive loss	(4,824)	(5,182)
Treasury stock, at cost	(5,446)	(4,254)
Retained earnings	9,102	7,646
<b>Total Raytheon Company stockholders' equity</b>	<u>9,827</u>	<u>9,087</u>
Noncontrolling interests in subsidiaries	112	101
<b>Total equity</b>	<u>9,939</u>	<u>9,188</u>
<b>Total liabilities and equity</b>	<u>\$23,607</u>	<u>\$23,134</u>
Prepaid expenses and other current assets	116	99
<b>Total current assets</b>	<u>7,868</u>	<u>7,417</u>

## General Dynamics Corp. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
<b>Revenues:</b>			
Products	\$21,977	\$20,185	\$19,125
Services	10,004	9,115	8,115
Revenues, Total	<u>31,981</u>	<u>29,300</u>	<u>27,240</u>
<b>Operating costs and expenses:</b>			
Products	17,808	16,230	15,672
Services	8,544	7,698	6,812
General and administrative	1,954	1,719	1,643
Costs and Expenses, Total	<u>28,306</u>	<u>25,647</u>	<u>24,127</u>
Operating earnings	<u>3,675</u>	<u>3,653</u>	<u>3,113</u>
Interest, net	(160)	(66)	(70)
Other, net	(2)	17	4
Earnings from continuing operations before income taxes	<u>3,513</u>	<u>3,604</u>	<u>3,047</u>
Provision for income taxes, net	1,106	1,126	967
Earnings from continuing operations	<u>2,407</u>	<u>2,478</u>	<u>2,080</u>
Discontinued operations, net of tax	(13)	(19)	(8)
Net earnings	<u>\$2,394</u>	<u>\$2,459</u>	<u>\$2,072</u>
<b>Basic:</b>			
Continuing operations	\$6.24	\$6.26	\$5.14
Discontinued operations	(\$0.03)	(\$0.05)	(\$0.02)
Net earnings	<u>\$6.21</u>	<u>\$6.21</u>	<u>\$5.12</u>
<b>Diluted:</b>			
Continuing operations	\$6.2	\$6.22	\$5.1
Discontinued operations	(\$0.03)	(\$0.05)	(\$0.02)
Net earnings	<u>\$6.17</u>	<u>\$6.17</u>	<u>\$5.08</u>

## General Dynamics Corp. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>Current assets:</b>		
Cash and equivalents	\$2,263	\$1,621
Accounts receivable	3,678	3,469
Contracts in process	4,449	4,341
Inventories	2,126	2,029
Other current assets	733	490
Total current assets	<u>13,249</u>	<u>11,950</u>
<b>Noncurrent assets:</b>		
Property, plant and equipment, net	2,912	2,872
Intangible assets, net	2,098	1,617
Goodwill	12,269	11,413
Other assets	549	521
Total noncurrent assets	<u>17,828</u>	<u>16,423</u>
Total assets	<u>31,077</u>	<u>28,373</u>
<b>Current liabilities:</b>		
Short-term debt and current portion of long-term debt	705	911
Accounts payable	2,365	2,443
Customer advances and deposits	4,313	4,154
Other current liabilities	2,988	2,852
Total current liabilities	<u>10,371</u>	<u>10,360</u>
<b>Noncurrent liabilities:</b>		
Long-term debt	3,159	3,113
Other liabilities	5,124	4,847
Commitments and contingencies (see Note N)		
Total noncurrent liabilities	<u>8,283</u>	<u>7,960</u>
Total liabilities	<u>18,654</u>	<u>18,320</u>
<b>Shareholders' equity:</b>		
Common stock	482	482
Surplus	1,518	1,346
Retained earnings	15,093	13,287
Treasury stock	(3,463)	(3,349)
Accumulated other comprehensive loss	(1,207)	(1,713)
Total shareholders' equity	<u>12,423</u>	<u>10,053</u>
Total liabilities and shareholders' equity	<u>\$31,077</u>	<u>\$28,373</u>



## KBR Inc. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
Revenue			
Services	\$12,060	\$11,493	\$8,642
Equity in earnings of unconsolidated affiliates, net	45	88	103
Total revenue	<u>12,105</u>	<u>11,581</u>	<u>8,745</u>
Operating costs and expenses			
Cost of services	11,348	10,820	8,225
General and administrative	217	223	226
Impairment of goodwill	6	0	0
Gain on disposition of assets, net	(2)	(3)	0
Total operating costs and expenses	<u>11,569</u>	<u>11,040</u>	<u>8,451</u>
Operating income	<u>536</u>	<u>541</u>	<u>294</u>
Interest income (expense), net	(1)	35	62
Foreign currency gains (losses), net	0	(8)	(15)
Other non-operating income (expense)	(3)	0	1
Income from continuing operations before income taxes and noncontrolling interests	532	568	342
Provision for income taxes	(168)	(212)	(138)
Income from continuing operations, net of tax	364	356	204
Income from discontinued operations, net of tax benefit (provision) of \$0, \$11, and \$(109)	0	11	132
Net income	<u>364</u>	<u>367</u>	<u>336</u>
Less: Net income attributable to noncontrolling interests	(74)	(48)	(34)
Net income attributable to KBR	290	319	302
Reconciliation of net income attributable to KBR common shareholders:			
Continuing operations	290	308	182
Discontinued operations, net	0	11	120
Net income attributable to KBR	\$290	\$319	\$302
Basic income per share (1):			
Continuing operations - Basic	\$1.8	\$1.84	\$1.08
Discontinued operations, net - Basic	\$0	\$0.07	\$0.71
Net income attributable to KBR per share - Basic	\$1.8	\$1.91	\$1.79
Diluted income per share (1):			
Continuing operations - Diluted	\$1.79	\$1.84	\$1.08
Discontinued operations, net - Diluted	\$0	\$0.07	\$0.71
Net income attributable to KBR per share - Diluted	\$1.79	\$1.9	\$1.78
Basic weighted average common shares outstanding	160	166	168
Diluted weighted average common shares outstanding	161	167	169
Cash dividends declared per share (See Note 13)	0.2	0.2	0

## KBR Inc. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>Current assets:</b>		
Cash and equivalents	\$941	\$1,145
<b>Receivables:</b>		
Accounts receivable net of allowance for bad debts of \$26 and \$19	1,243	1,312
Unbilled receivables on uncompleted contracts	657	835
Total receivables	<u>1,900</u>	<u>2,147</u>
Deferred income taxes	192	107
Other current assets	608	743
Total current assets	<u>3,641</u>	<u>4,142</u>
Property, plant, and equipment, net of accumulated depreciation of \$264 and \$224	251	245
Goodwill	691	694
Intangible assets, net	58	73
Equity in and advances to related companies	164	185
Noncurrent deferred income taxes	120	167
Noncurrent unbilled receivables on uncompleted contracts	321	134
Other assets	81	244
Total assets	<u>5,327</u>	<u>5,884</u>
<b>Current liabilities:</b>		
Accounts payable	1,045	1,387
Due to former parent, net	53	54
Advance billings on uncompleted contracts	407	519
Reserve for estimated losses on uncompleted contracts	40	76
Employee compensation and benefits	191	320
Other current liabilities	552	680
Current liabilities related to discontinued operations, net	3	7
Total current liabilities	<u>2,291</u>	<u>3,043</u>
Noncurrent employee compensation and benefits	469	403
Other noncurrent liabilities	106	333
Noncurrent income tax payable	43	34
Noncurrent deferred tax liability	122	37
Total liabilities	<u>3,031</u>	<u>3,850</u>
<b>KBR Shareholders' equity</b>		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding	0	0
Common stock, \$0.001 par value, 300,000,000 shares authorized, 170,686,531 and 170,125,715 shares issued, and 160,363,830 and 161,725,715 shares outstanding	0	0
Paid-in capital in excess of par	2,103	2,091

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### KBR Inc. Balance Sheet (continued)

In Millions	Dec. 31, 2009	Dec. 31, 2008
Accumulated other comprehensive loss	(444)	(439)
Retained earnings	854	596
Treasury stock, 10,322,701 shares and 8,400,000 shares, at cost	(225)	(196)
Total KBR shareholders' equity	<u>2,288</u>	<u>2,052</u>
Noncontrolling interests	8	(18)
Total shareholders' equity	2,296	2,034
Total liabilities and shareholders' equity	<u>\$5,327</u>	<u>\$5,884</u>

### Science Applications International Corp. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
<b>Consolidated Income Statements</b>			
Revenues	\$10,846.	\$10,070.	\$8,926.
<b>Costs and expenses:</b>			
Cost of revenues	<u>9,343.</u>	<u>8,692.</u>	<u>7,686.</u>
Selling, general and administrative expenses	636.	602.	567.
Operating income	867.	776.	673.
<b>Non-operating income (expense):</b>			
Interest income	2.	20.	56.
Interest expense	(76.)	(78.)	(90.)
Other income (expense), net	6.	(15.)	(6.)
Income from continuing operations before income taxes	799.	703.	633.
Provision for income taxes	(299.)	(256.)	(243.)
Income from continuing operations	500.	447.	390.
<b>Discontinued operations (Note 17):</b>			
Income (loss) from discontinued operations before income taxes	(6.)	(19.)	31.
Benefit (provision) for income taxes	3	24.	(5.)
Income (loss) from discontinued operations	(3.)	5.	26.
Net income	<u>497.</u>	<u>452.</u>	<u>416.</u>
<b>Earnings per share (Note 2):</b>			
<b>Basic:</b>			
Income from continuing operations	1	1.1	0.94
Income (loss) from discontinued operations	(\$0.01)	\$0.01	\$0.06
	1.25	1.11	1
<b>Diluted:</b>			
Income from continuing operations	\$1.24	\$1.08	\$0.92
Income from discontinued operations —	0.01	0.06	
	\$1.24	\$1.09	\$0.98

## Science Applications International Corp. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	861.	936.
Receivables, net	2,044.	1,889.
Inventory, prepaid expenses and other current assets	288.	385.
Assets of discontinued operations	=	7
Total current assets	<u>3,193.</u>	<u>3,217.</u>
Property, plant and equipment, net	389	357.
Intangible assets, net	106.	88.
Goodwill	1,434	1,249.
Deferred income taxes	103.	86.
Other assets	70.	51.
Total assets	<u>5,295.</u>	<u>5,048.</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	1191	1178
Accrued payroll and employee benefits	512.	487.
Notes payable and long-term debt, current portion	3.	17.
Liabilities of discontinued operations	—	1.
Total current liabilities	<u>1,706</u>	<u>1,683</u>
Notes payable and long-term debt, net of current portion	1,103.	1,099.
Other long-term liabilities	195.	182.
Commitments and contingencies (Notes 14, 18 and 19)		
Total liabilities	<u>3,004.</u>	<u>2,964.</u>
Stockholders' equity:		
Preferred stock, \$.0001 par value, 10 million and 1.5 billion shares authorized at January 31, 2010 and 2009, respectively, 0 and 196 million shares issued and outstanding at January 31, 2010 and 2009, respectively	=	=
Common stock, \$.0001 par value, 2 billion shares authorized, 388 million and 210 million shares issued and outstanding at January 31, 2010 and 2009, respectively	=	=
Additional paid-in capital	2096	1950
Retained earnings	239.	183.
Accumulated other comprehensive loss	(44.)	(49)
Total stockholders' equity	2291	2084
Total liabilities and shareholders' equity	5,295.	5,048.

### L-3 Communications Corp. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
Net sales:			
Products	\$7,516	\$7,130	\$6,572
Services	<u>8,099</u>	<u>7,771</u>	<u>7,389</u>
Total net sales	<u>15,615</u>	<u>14,901</u>	<u>13,961</u>
Cost of sales:			
Products	6,671	6,380	5,844
Services	<u>7,288</u>	<u>6,962</u>	<u>6,669</u>
Total cost of sales	<u>13,959</u>	<u>13,342</u>	<u>12,513</u>
Litigation gain	<u>0</u>	<u>126</u>	<u>0</u>
Operating income	1,656	1,685	1,448
Interest and other income, net	19	28	31
Interest expense	279	290	314
Debt retirement charge	<u>10</u>	<u>0</u>	<u>0</u>
Income from continuing operations before income taxes	1,386	1,423	1,165
Provision for income taxes	<u>475</u>	<u>494</u>	<u>411</u>
Income from continuing operations	911	929	754
Gain on sale of a business, net of income taxes of \$13 million	<u>0</u>	<u>20</u>	<u>0</u>
Net income	911	949	754
Less: Net income attributable to noncontrolling interests	<u>10</u>	<u>11</u>	<u>9</u>
Net income attributable to L-3	901	938	745
Less: Net income allocable to participating securities	<u>8</u>	<u>9</u>	<u>5</u>
Net income allocable to L-3 Holdings' common shareholders	<u>\$893</u>	<u>\$929</u>	<u>\$740</u>
Basic:			
Income from continuing operations	\$7.65	\$7.5	\$5.92
Gain on sale of a business, net of income taxes	<u>\$0</u>	<u>\$0.17</u>	<u>\$0</u>
Net income	<u>\$7.65</u>	<u>\$7.67</u>	<u>\$5.92</u>
Diluted:			
Income from continuing operations	\$7.61	\$7.43	\$5.86
Gain on sale of a business, net of income taxes	<u>\$0</u>	<u>\$0.16</u>	<u>\$0</u>
Net income	<u>\$7.61</u>	<u>\$7.59</u>	<u>\$5.86</u>
L-3 Holdings' weighted average common shares outstanding:			
Basic	<u>116.8</u>	<u>121.2</u>	<u>124.9</u>
Diluted	<u>117.4</u>	<u>122.4</u>	<u>126.2</u>

### L-3 Communications Corp. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
<b>Current assets:</b>		
Cash and cash equivalents	\$1,016	\$867
Billed receivables, net of allowances of \$32 in 2009 and \$26 in 2008	1,149	1,226
Contracts in process	2,377	2,267
Inventories	239	259
Deferred income taxes	247	211
Other current assets	<u>123</u>	<u>131</u>
Total current assets	<u>5,151</u>	<u>4,961</u>
Property, plant and equipment, net	854	821
Goodwill	8,190	8,029
Identifiable intangible assets	377	417
Deferred debt issue costs	47	44
Other assets	<u>194</u>	<u>212</u>
Total assets	<u>14,813</u>	<u>14,484</u>
<b>Current liabilities:</b>		
Accounts payable, trade	464	602
Accrued employment costs	642	700
Accrued expenses	482	479
Advance payments and billings in excess of costs incurred	521	530
Income taxes	10	45
Other current liabilities	<u>363</u>	<u>351</u>
Total current liabilities	<u>2,482</u>	<u>2,707</u>
Pension and postretirement benefits	817	802
Deferred income taxes	272	127
Other liabilities	470	414
Long-term debt	<u>4,112</u>	<u>4,493</u>
Total liabilities	<u>8,153</u>	<u>8,543</u>
<b>L-3 shareholders' equity:</b>		
L-3 Communications Holdings, Inc.'s common stock: \$.01 par value; 300,000,000 shares authorized, 115,353,546 shares outstanding at December 31, 2009 and 118,633,746 shares outstanding at December 31, 2008 (L-3 Communications Corporation's common stock: \$.01 par value, 100 shares authorized, issued and outstanding)	4,449	4,136
L-3 Communications Holdings, Inc.'s treasury stock (at cost), 21,040,541 shares at December 31, 2009 and 13,995,450 shares at December 31, 2008	(1,824)	(1,319)
Retained earnings	4,108	3,373
Accumulated other comprehensive loss	<u>(166)</u>	<u>(332)</u>
Total L-3 shareholders' equity	6,567	5,858
Noncontrolling interests	<u>93</u>	<u>83</u>
Total equity	<u>6,660</u>	<u>5,941</u>
Total liabilities and equity	<u>\$14,813</u>	<u>\$14,484</u>

## Computer Sciences Corp. Income Statement

In Millions, except Per Share data	12 Months Ended Apr. 02, 2010	12 Months Ended Apr. 03, 2009	12 Months Ended Mar. 28, 2008
Income Statement [Abstract]			
Revenues	<u>\$16,128</u>	<u>\$16,740</u>	<u>\$16,500</u>
Costs of services (excludes depreciation and amortization)	12,797	13,268	13,150
Selling, general and administrative	991	1,083	975
Depreciation and amortization	1,097	1,186	1,199
Goodwill impairment	0	19	0
Interest expense	252	260	185
Interest income	(27)	(41)	(37)
Special items	0	0	156
Other (income)/expense	(20)	8	(60)
Total costs and expenses	<u>15,090</u>	<u>15,783</u>	<u>15,568</u>
Income before taxes	<u>1,038</u>	<u>957</u>	<u>932</u>
Taxes on income	204	(166)	373
Net income	<u>834</u>	<u>1,123</u>	<u>559</u>
Less: net income attributable to noncontrolling interest, net of tax	17	8	14
Net income attributable to CSC common shareholders	<u>\$817</u>	<u>\$1,115</u>	<u>\$545</u>
Earnings per common share			
Basic	\$5.36	\$7.37	\$3.26
Diluted	\$5.28	\$7.31	\$3.2

## Computer Sciences Corp. Balance Sheet

In Millions	Apr. 02, 2010	Apr. 03, 2009
<b>Current assets:</b>		
Cash and cash equivalents	\$2,784	\$2,297
Receivables, net of allowance for doubtful accounts of \$47 (2010) and \$55 (2009)	3,849	3,786
Prepaid expenses and other current assets	1,789	1,624
Total current assets	<u>8,422</u>	<u>7,707</u>
<b>Intangible and other assets:</b>		
Software, net of accumulated amortization of \$1,205 (2010) and \$1,082 (2009)	511	476
Outsourcing contract costs, net of accumulated amortization of \$1,233 (2010) and \$1,241 (2009)	642	684
Goodwill	3,866	3,784
Other assets	773	615
Total intangible and other assets	<u>5,792</u>	<u>5,559</u>
<b>Property and equipment - at cost:</b>		
Land, buildings and leasehold improvements	1,191	1,132
Computers and related equipment	4,301	4,176
Furniture and other equipment	480	462
Property and equipment - at cost	5,972	5,770
Less accumulated depreciation and amortization	3,731	3,417
Property and equipment, net	2,241	2,353
Total assets	<u>16,455</u>	<u>15,619</u>
<b>Current liabilities:</b>		
Short-term debt and current maturities of long-term debt	75	62
Accounts payable	409	636
Accrued payroll and related costs	821	822
Other accrued expenses	1,344	1,264
Deferred revenue	1,189	915
Income taxes payable and deferred income taxes	284	317
Total current liabilities	<u>4,122</u>	<u>4,016</u>
Long-term debt, net of current maturities	3,669	4,173
Income tax liabilities and deferred income taxes	550	486
Other long-term liabilities	1,606	1,326
Total liabilities	9,947	10,001
<b>Stockholders' equity:</b>		
Common stock, par value \$1 per share; authorized 750,000,000 shares; issued 162,234,314 (2010) and 159,688,820 (2009)	162	160
Additional paid-in capital	2,006	1,836
Earnings retained for use in business	5,709	4,893
Accumulated other comprehensive loss	(1,052)	(1,004)
Less common stock in treasury, at cost, 8,284,771 (2010) and 8,190,333 (2009)	(379)	(375)
Total CSC stockholders' equity	<u>6,446</u>	<u>5,510</u>
Noncontrolling interest in subsidiaries	62	108
Total stockholders' equity	<u>6,508</u>	<u>5,618</u>
Total liabilities and stockholders' equity	<u>\$16,455</u>	<u>\$15,619</u>



## ITT Corp. Income Statement

In Millions, except Per Share data	12 Months Ended Dec. 31, 2009	12 Months Ended Dec. 31, 2008	12 Months Ended Dec. 31, 2007
<b>Consolidated Income Statements</b>			
Product revenue	\$8,243.5	\$9,181.2	\$7,057.5
Service revenue	<u>2,661</u>	<u>2,513.6</u>	<u>1,945.8</u>
Total revenue	<u>10,904.5</u>	<u>11,694.8</u>	<u>9,003.3</u>
Cost of product revenue	5,527.6	6,255.1	4,746.4
Cost of service revenue	<u>2,316.2</u>	<u>2,184.3</u>	<u>1,688.6</u>
Total costs of revenue	<u>7,843.8</u>	<u>8,439.4</u>	<u>6,435</u>
Gross profit	3,060.7	3,255.4	2,568.3
Selling, general and administrative expenses	1,576.4	1,709.2	1,328.9
Research and development expenses	258.1	244.3	182.3
Asbestos-related costs, net	237.5	14.3	13.8
Restructuring and asset impairment charges, net	<u>79.3</u>	<u>77.5</u>	<u>66.1</u>
Operating income	<u>909.4</u>	<u>1,210.1</u>	<u>977.2</u>
Interest expense	99.5	140.8	114.9
Interest income	24.3	31.3	49.6
Miscellaneous expense, net	<u>9</u>	<u>13.1</u>	<u>13.4</u>
Income from continuing operations before income tax expense	<u>825.2</u>	<u>1,087.5</u>	<u>898.5</u>
Income tax expense	<u>174.5</u>	<u>312.3</u>	<u>265.5</u>
Income from continuing operations	<u>650.7</u>	<u>775.2</u>	<u>633</u>
<b>Discontinued operations:</b>			
(Loss) income from discontinued operations, including tax benefit of \$5.1, \$6.9 and \$26.1, respectively	<u>(7)</u>	<u>19.5</u>	<u>109.1</u>
Net income	<u>\$643.7</u>	<u>\$794.7</u>	<u>\$742.1</u>
<b>Income from continuing operations:</b>			
Basic	\$3.56	\$4.26	\$3.49
Diluted	\$3.54	\$4.21	\$3.43
<b>Discontinued operations:</b>			
Basic	(\$0.03)	\$0.11	\$0.6
Diluted	(\$0.04)	\$0.11	\$0.59
<b>Net income:</b>			
Basic	\$3.53	\$4.37	\$4.09
Diluted	\$3.5	\$4.32	\$4.02
Cash dividends declared per common share	\$0.85	\$0.7	\$0.56
Average Common Shares - Basic	182.5	181.9	181.5
Average Common Shares - Diluted	<u>183.9</u>	<u>184</u>	<u>184.5</u>

## ITT Corp. Balance Sheet

In Millions	Dec. 31, 2009	Dec. 31, 2008
Current assets:		
Cash and cash equivalents	\$1,215.6	\$964.9
Receivables, net	1,796.7	1,961.1
Inventories, net	802.3	803.8
Deferred income taxes	234.1	203.4
Other current assets	<u>207.1</u>	<u>131</u>
Total current assets	<u>4,255.8</u>	<u>4,064.2</u>
Plant, property and equipment, net	1,051	993.9
Deferred income taxes	583.2	608.5
Goodwill	3,864	3,831.3
Other intangible assets, net	518.9	616.5
Asbestos-related assets	604.3	201.2
Other non-current assets	<u>251.9</u>	<u>164.6</u>
Total non-current assets	<u>6,873.3</u>	<u>6,416</u>
Total assets	<u>11,129.1</u>	<u>10,480.2</u>
Liabilities and Shareholders' Equity		
Accounts payable	1,291.3	1,234.6
Accrued expenses	1,034.7	991.2
Accrued taxes	105	30.2
Short-term debt and current maturities of long-term debt	75	1,679
Postretirement benefits	73.2	68.8
Deferred income taxes	<u>36.4</u>	<u>26.7</u>
Total current liabilities	<u>2,615.6</u>	<u>4,030.5</u>
Postretirement benefits	1,788.5	2,141.6
Long-term debt	1,430.8	467.9
Asbestos-related liabilities	867.2	225.9
Other non-current liabilities	<u>548.7</u>	<u>554.4</u>
Total non-current liabilities	<u>4,635.2</u>	<u>3,389.8</u>
Total liabilities	<u>7,250.8</u>	<u>7,420.3</u>
Shareholders' Equity:		
Common stock: Authorized - 500 shares, \$1 par value per share, outstanding - 182.9 shares and 181.7 shares, respectively(1)	181.6	180.6
Retained earnings	4,736.8	4,203
Accumulated other comprehensive (loss) income:		
Postretirement benefits	(1,388.2)	(1,534.1)
Cumulative translation adjustments	336	209.8
Unrealized gain on investment securities	<u>12.1</u>	<u>0.6</u>
Total accumulated other comprehensive loss	<u>(1,040.1)</u>	<u>(1,323.7)</u>
Total shareholders' equity	<u>3,878.3</u>	<u>3,059.9</u>
Total liabilities and shareholders' equity	<u>\$11,129.1</u>	<u>\$10,480.2</u>